

The Audit Findings for Maidstone Borough Council

Year ended 31 March 2019

30 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and its 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), 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 audit work has been undertaken on site during July. Our findings are summarised on pages 5 to 14. We have identified one adjustment to the financial statements that has resulted in a £333k adjustment to the Council's Comprehensive Income and Expenditure Statement. There is no impact on the General Fund outturn. Audit adjustments are detailed in Appendix A.</p> <p>We received draft financial statements by the end of May 2019 and following internal checks by management after this date we received a revised set of financial statements to audit on 21 June 2019. This version changed the Core Financial Statements as follows:</p> <ul style="list-style-type: none">• the (Surplus) / Deficit on provision of service was amended from a surplus of £1,390k to a deficit of £1,980k. This reduced the 'Total Comprehensive Income and Expenditure' surplus of £18,088k in the draft statement of accounts, published on 31 May 2019, to £14,718k. This has been adjusted to reflect a change in the treatment of income from Retained Business Rates (£2.9 million) and a late Rent Allowance Payment (£0.5 million).• the Net Asset position on the Balance sheet reduced by £172k to £45,296k. <p>Our work is ongoing, however at this stage there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- completion of audit fieldwork in the following areas – expenditure, income, property, plant and equipment, debtors, creditors, Collection Fund and review of disclosures.- completion of our internal review process- receipt of management representation letter- review of the final set of financial statements- review of post-balance sheet events. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Maidstone Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 15 to 18.

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 plan to certify the completion of the audit at the same time as the opinion is issued.

Acknowledgements

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

Summary

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.

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; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

Conclusion

Our audit work is ongoing however, subject to completion of this work and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 30 July 2019, as detailed in Appendix C. These outstanding items are as listed on page 3.

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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Maidstone Borough Council.

	Amount (£'000)	Qualitative factors considered
Materiality for the financial statements	1,800	This has been calculated based upon 2% of your prior year gross expenditure (rounded down)
Performance materiality	1,260	This has been calculated as 75% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	90	This has been calculated based upon 5% of headline materiality.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle include fraudulent transactions</p>	<p>Auditor commentary</p> <p>This risk was rebutted in our Audit Plan and there have been no changes to this assessment.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>Our audit work included:</p> <ul style="list-style-type: none"> • evaluating the design effectiveness of management controls over journals • analysing the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

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Valuation of land and buildings

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Auditor commentary

Our audit work included:

- evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluating the competence, capabilities and objectivity of the valuation expert
- discussing with the valuer the basis on which the valuation was carried out
- challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- testing revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluating 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 at year end.

Our audit work is currently being completed and we are not yet able to conclude on this risk.

However, our work to date has identified an error totalling £905k due to the Council's treatment of the depreciation charged in the year on assets that have been revalued in the year. The draft accounts included the 10 months of depreciation charged between April 2018 and January 2019 as part of the NBV of the assets. The Code requires this amount to be removed from the NBV as the revaluation should remove the accumulated depreciation as the new value is added to the asset register. This has resulted in an amendment to the Core Financial Statements as set out in Appendix A.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

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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 size of the numbers involved (£77 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary



Our audit work included:

- updating 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 evaluate the design of the associated controls;
- evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made.

In the 'Significant findings – other issues' on page 13 we set out the potential impact of the McCloud judgement on the pension fund net liability. We are satisfied that this has not resulted in a material difference in the 2018/19 accounts and the narrative disclosure in Note 32 has been updated to reflect the latest position.

Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability.


Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Revenue recognition	<p>Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.</p> <p>The Council has three principal revenue streams:</p> <ol style="list-style-type: none"> 1) Taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied 2) Grant income is recognised in accordance with the terms of the grant, whether specific or non-specific 3) Income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed. 	<ul style="list-style-type: none"> • The revenue recognition policy is in line with the CIPFA 2018/19 Accounting Code. The Council use accruals based accounting recognising revenue when significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. 	 Green
Provisions for NNDR appeals - £1.886m	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management rely on the expert opinion of Analyse Local in order to determine the level of provision required. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. As part of the Kent pool, Maidstone BC 's share of the total appeals provision is at 40%, hence the £1,886k. The provision has decreased by £421k in 2018/19.</p>	<p>We assessed management's provision for NNDR appeals by considering:</p> <ul style="list-style-type: none"> • the appropriateness of the underlying information used to determine the estimate • the impact of any changes to valuation method • the consistency of estimate against peers • the reasonableness of increase/decrease in estimate • the adequacy of disclosure of estimate in the financial statements <p>We consider management's process is appropriate.</p>	 Green

Assessment

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


Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £58.5m	<p>Other land and buildings comprises 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. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Harrison's Chartered Surveyor to complete the valuation of properties as at 31 January 2019 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase of £6,582k. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> • an assessment of management's expert; • the completeness and accuracy of the underlying information used to determine the estimate; • the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve; • the reasonableness of the assumptions behind the valuations; • the reasonableness of increase in estimate; and • the adequacy of disclosure of estimate in the financial statements. <p>We consider management's process is appropriate,</p>	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability – £77.618m</p> <p>The Council's total net pension liability at 31 March 2019 comprises £77.618m (PY £77.481m) in relation to the Local Government Pension Scheme as administered by Kent County Council.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>Our assessment of the estimate has considered:</p> <ul style="list-style-type: none"> • Assessment of management's expert • Use of PWC as auditors expert to assess actuary and assumptions made by actuary. The assumptions employed by the actuary have been assessed as reasonable. 	 Green																								
<table border="1"> <thead> <tr> <th data-bbox="789 415 1384 486">Assumption</th> <th data-bbox="1384 415 1566 486">Actuary Value</th> <th data-bbox="1566 415 1798 486">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="789 486 1384 536">Discount rate</td> <td data-bbox="1384 486 1566 536">2.40%</td> <td data-bbox="1566 486 1798 536" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 536 1384 586">Pension increase rate</td> <td data-bbox="1384 536 1566 586">2.40%</td> <td data-bbox="1566 536 1798 586" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 586 1384 636">Salary growth</td> <td data-bbox="1384 586 1566 636">3.90%</td> <td data-bbox="1566 586 1798 636" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 636 1384 729">Mortality assumptions – longevity at 65 for current male pensioners (years)</td> <td data-bbox="1384 636 1566 729">22.0</td> <td data-bbox="1566 636 1798 729" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 729 1384 801">Mortality assumptions – longevity at 65 for future male pensioners (years)</td> <td data-bbox="1384 729 1566 801">23.7</td> <td data-bbox="1566 729 1798 801" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 801 1384 872">Mortality assumptions – longevity at 65 for current female pensioners (years)</td> <td data-bbox="1384 801 1566 872">24.0</td> <td data-bbox="1566 801 1798 872" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="789 872 1384 968">Mortality assumptions – longevity at 65 for future female pensioners (years)</td> <td data-bbox="1384 872 1566 968">25.8</td> <td data-bbox="1566 872 1798 968" style="text-align: center;">●</td> </tr> </tbody> </table>	Assumption	Actuary Value	Assessment	Discount rate	2.40%	●	Pension increase rate	2.40%	●	Salary growth	3.90%	●	Mortality assumptions – longevity at 65 for current male pensioners (years)	22.0	●	Mortality assumptions – longevity at 65 for future male pensioners (years)	23.7	●	Mortality assumptions – longevity at 65 for current female pensioners (years)	24.0	●	Mortality assumptions – longevity at 65 for future female pensioners (years)	25.8	●	<ul style="list-style-type: none"> • Completeness and accuracy of the underlying information used to determine the estimate • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements 	
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Assessment

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Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

- 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).
- We have subjected the 2019/20 budget and high level revenue MTFS to detailed scrutiny, and reviewed the planned savings proposals for 2019/20 and 2020/21 in our consideration of the appropriateness of management's use of the going concern assumption.

Concluding comments

Auditor commentary

- Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.

Significant findings - other issues

Issue	Commentary	Auditor view
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,282k, and an increase in service costs for the 2019/20 year of £126k.</p> <p>Management's view is that the impact of the ruling is not material for the Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>The Council has updated the narrative in Note 32 for this judgement.</p> <p>We have included this as an uncertainty within Appendix B.</p>

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
1 Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed. However, our review of the related party declaration process identified that the Council does not follow good practice as our testing found a number of declarations from members were older than the 2018/19 year. The declarations should be made annually after the end of the financial year to ensure the accounts include all disclosures needed.
3 Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4 Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send (a) confirmation requests to holders of the Council's investments and bank balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6 Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements and amendments have been summarised on page 21
7 Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3 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>Note that work is not required as the Council does not exceed the threshold.</p>
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Maidstone Borough Council in the audit opinion, as detailed in Appendix C.</p>

Value for Money

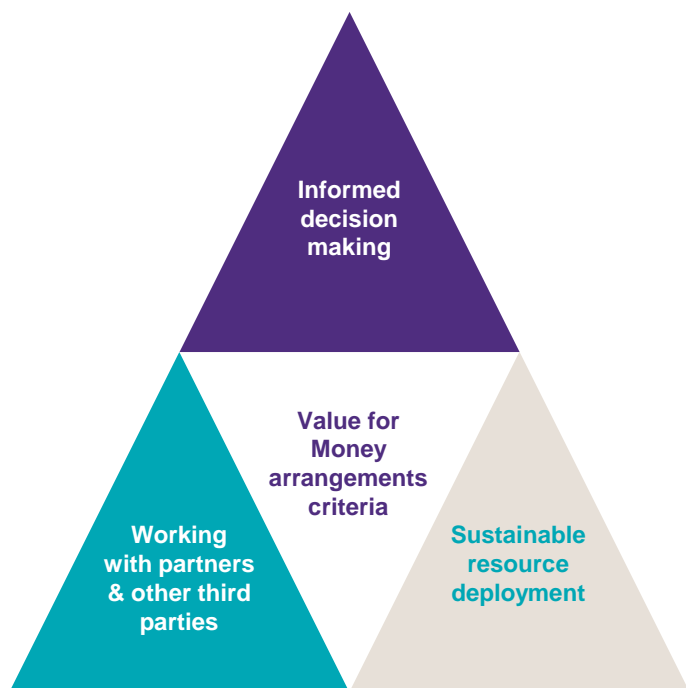
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Plan, including savings and income proposals; and
- The Council's response to Brexit.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 to 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p>1 Overall Financial Position – Medium Term Financial Strategy</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 Strategy (MTFS).</p> <p>We propose to:</p> <ul style="list-style-type: none"> - review the assumptions behind the latest MTFS, covering the period up to March 2024; - consider the 2018/19 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2019/20 budget; and - review 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 MTFS. 	<p><u>Revenue outturn for 2018/19</u></p> <p>Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned targets.</p> <p>The Council has had a challenging year but has been able to deliver a provisional revenue budget underspend of £0.154m (after deducting resources to be carried forward). This represents good financial performance in the context of the reduction in central government funding, the need to make significant savings, and increasing pressure on services.</p> <p><u>Budget for 2019/20 onwards</u></p> <p>The Council presented three budget scenarios as part of their Medium Term Financial Strategy – ‘adverse’, ‘neutral’ and ‘favourable’. The ‘neutral’ budget includes circa £1.17m of savings in 2019/20 and cumulative savings of £5.2m by 2023/24.</p> <p>We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2019/20. We discussed the key items with management and looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging.</p> <p>We have discussed with management the assumptions and estimates which underlie their estimates of the additional revenue which you plan to generate and the savings plans. We found the estimates were reasonable. The Council has a very good track record in setting budgets which are accurate and very close to the reality shown in the outturn position.</p> <p>We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
1	<p data-bbox="414 285 828 307"><u>Fiscal Indicators and reserves levels</u></p> <p data-bbox="414 342 1989 421">The level of reserves in the Council's draft accounts is £45,468k comprising usable reserves of £15,221k and unusable reserves of £30,247k. The general fund and earmarked general fund reserves as a percentage of net service revenue expenditure is 56%. The level of usable reserves, which include the general fund, earmarked reserves and capital receipts reserve, has increased from 2017-18 by 23%.</p> <p data-bbox="414 456 1989 564">For the short to medium term, the Council's reserves level provides it with a sufficient cushion to weather the on-going financial challenges that you face over the next few years due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls on spending and ensure that savings plans are fully delivered.</p>

Auditor view

On the basis of this work, we have concluded that the risk was sufficiently mitigated.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>2 Brexit</p> <p>With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Authority and which it will need to plan for.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments. 	<p>At the time of writing our audit plan, the UK was due to exit from the EU on 29 March 2019. This was delayed and Brexit is now expected to happen on a revised date of 31 October 2019. Therefore the expected risk related to the impact of Brexit has not materialised within the period covered by this report. However we have considered the level of preparedness and planning undertaken by the Council.</p> <p>The Council is part of the Kent Resilience Forum and work undertaken to assess the risk and prepare for Brexit have included work undertaken with in the Council as part of a multi agency approach. The overall approach has involved considering the risk from a no-deal scenario and the areas which it would impact;</p> <ul style="list-style-type: none"> Co-ordination of the approach and risk assessment across the county through the Kent Resilience Forum. Through this body the Council has participated in exercises to test plans related to identified risks such as transport Brexit briefings have been provided to the Council in order keep members informed of progress. The Council has tested the ability of its systems to cope with staff working from home and the ability of sufficient staff to get to work for customer facing roles and to ensure the continuing provision of key Council services such as waste collection. The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU. 	

Auditor view

On the basis of this work, we have concluded that the risk was sufficiently mitigated based on the information the Council has had in order to prepare for the impact of Brexit at this time.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits grant	10,000	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 low in comparison to the total fee for the audit 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.
Presentation to council on Grant Thornton's vibrant Economy index	nil	Self interest	This was performed by a separate team to that involved in the audit and there was no related fee income.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 Property, plant and equipment (note 18)			
The Council revalues its assets as at 31 January 2019. The depreciation charge for the year includes £905k for the 10 months to January 2019. However, on revaluation this should be written out of the asset register as an accumulated depreciation adjustment.			
The accumulated depreciation was not written out which meant the valuation of the asset was misstated. The accounts have been amended as follows:			
Dr Accumulated Depreciation and Impairment – Accumulated Depreciation		905	
Cr Cost or valuation – revaluation increases/(decreases) recognised in the RR		(572)	
Cr Cost or Valuation – revaluation increases/(decreases) recognised in the Surplus/Deficit on provision of services	(333)		(333)
2 Property, plant and equipment (note 18)			
The PPE additions testing identified £373k of costs in Assets under Construction that should not have been capitalised as they were not enhancing the asset. The Council has obtained legal advice about the additional costs incurred on the project that are not capital in nature and have made a judgement that these can be recovered. The accounts have been amended as follows:			
Dr Debtors		373	
Cr PPE additions – Assets under Construction		(373)	
Overall impact	£ (333)	£ nil	£ (333)

There is nil impact on the Balance Sheet for the above amendment as there are capital accounting entries in the Movement in Reserves Statement which also impact on the Balance Sheet. These have not been shown in the table for simplicity.

Audit Adjustments

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.

Misclassification / disclosure	Detail	Auditor recommendations	Adjusted?
Property, Plant and Equipment (note 18) - misclassification	<p>The Revaluation increases/(decreases) recognised in the 'Revaluation Reserve' and 'Surplus/Deficit on Provision of Services' for Land and Buildings included:</p> <ul style="list-style-type: none"> Valuation of assets Accumulated depreciation written out upon revaluation <p>These amounts should not be netted off and should be disclosed on separate lines within the disclosure note. The 2018/19 accumulated depreciation was £2,714k which was deflating the true revaluation gain in the year in the note. The note has been amended to show the accumulated depreciation as Other movements in cost or valuation with an explanation below the table to explain the movement.</p> <p>The 2017/18 disclosure note has also been amended and shown as restated in the accounts. The 2017/18 accumulated depreciation was £2,600k.</p>	<ul style="list-style-type: none"> MBC have amended the misclassification in the final version of the accounts 	✓
External audit costs (note 15) - disclosure	<p>The fees payable for the certification of grant claims during the year was understated for the 18/19 HB claim by £1k. Also, the fee did not include the additional fee for 2017/18 HB work of £10k. Total fee for grant claims is £20k.</p>	<ul style="list-style-type: none"> MBC have amended the disclosure in the final version of the accounts 	✓
Capital commitments (note 18) - disclosure	<p>The capital commitments disclosed in the note did not agree to the signed contracts as at 31 March 2019. The accounts have been amended to state the actual costs committed at year end.</p>	<ul style="list-style-type: none"> MBC have amended the disclosure in the final version of the accounts 	✓
Trust Funds (note 27) - disclosure	<p>The Trust Funds note was prepared on estimated figures as the draft accounts were not available. These have now been received and there are differences greater than our trivial level in the Gross Expenditure and Income totals and Balance Sheet.</p>	<ul style="list-style-type: none"> MBC have amended the disclosure in the final version of the accounts 	✓
Disclosure only	Various	<ul style="list-style-type: none"> We have agreed a number of other minor disclosure changes such as typos, formatting and presentation. 	✓

Audit Adjustments

Impact of unadjusted misstatements

The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below. At this stage of our audit fieldwork work we do not have any unadjusted misstatements to report.

Impact of unadjusted estimates

We are not proposing an amendment for the below estimate but are bringing to your attention as it was a significant judgement in the accounts.

Detail	Impact	Reason for not adjusting
McCloud pension liability estimates	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This will therefore constitute an unadjusted estimate.	<p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,282k, and an increase in service costs for the 2019/20 year of £126k.</p> <p>Management's view is that the impact of the ruling is not material for Maidstone Borough Council, and will be considered for future years' actuarial valuations.</p> <p>We accept this view. Narrative has been added to the Pensions Note to explain the ruling.</p>

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	38,866	38,866
Additional fees in relation to additional work required for the following issues in 2018/19: * McCloud judgement		TBC
Total audit fees (excluding VAT)	£38,866	£TBC

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

*In common with all other councils there will be proposed additional fees related to McCloud and other regulatory requirements for 2018/19. We do not propose any additional fees for other matters. We have not yet discussed the additional fees with management and will do so once the audit is complete.

Fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services' below.

Non Audit Fees

Fees for other services	Fees
Audit related services:	
Certification of Housing Benefits claim 2018/19	10,000
Additional fee for 2017/18 Housing Benefits claim	10,000

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Maidstone Borough Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Maidstone Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure 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 notes to the financial statements include the EFA, Notes to the Statements, Policies and Judgements, and Notes to the Collection Fund Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Business Improvement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Business Improvement has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance and Business Improvement is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, 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 of the Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report 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
- 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 more fully in the Statement of Responsibilities for the Statement of Accounts set out on page [X], 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 2018/19, 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 is 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.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Maidstone Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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]

Elizabeth Jackson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]



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