



The Audit Findings for Maidstone Borough Council

Year ended 31 March 2020

6 November 2020



Contents



Your key Grant Thornton team members are:

Paul Dossett

Key Audit Partner

T: 020 7728 3180

E: paul.dossett@uk.gt.com

Tina James

Audit Manager

T: 020 7728 3307

E: tina.b.james@uk.gt.com

Ke Ma

Associate

T: 020 7865 2905

E: ke.ma@uk.gt.com

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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 ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p> <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The Council as well as the finance team have faced a number of front line challenges including access to systems, the administration of support to businesses, closure of car parks and leisure services with additional challenges of reopening services under new government guidelines.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. The audit has, and continues to be delivered remotely.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Financial Statements</p>	<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), 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>	<p>Our audit work has been undertaken remotely during July to November. Our findings are summarised on pages 6 to 13. We have two adjustments to the financial statements to date that have resulted in a £2,338k adjustment to the Council's Comprehensive Income and Expenditure Statement primary due to a prior period adjustment relating to balance sheet assets. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>In our Audit Planning Report we included reference to the work required on the group accounts which the Council was intending to prepare for the first time. Due to the challenges presented by the new ways of working under Covid-19 restrictions management made the decision to refrain from preparing group accounts in 2019-20 on the grounds of materiality. We are satisfied that the Council's decision is compliant with the CIPFA Code.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • Receipt of assurance letter from the Kent Pension Fund auditor. We expect to receive this in advance of the Committee date; • Completion of internal review procedures; • receipt of management representation letter – see appendix F; and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties for both the Council property and their share of assets included in the IAS 19 pension fund actuarial position.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 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').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 16 to 19.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • 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. 	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 control; 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 had to alter our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 16 November. The outstanding items are listed on page 4.

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 levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,800,000	This has been calculated based upon 2% of your prior year expenditure
Performance materiality	1,260,000	This has been calculated as 70% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	90,000	
Materiality for related party transactions and senior officer remuneration	100,000	Due to the additional sensitivity and external interest for these areas a lower threshold was applied.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid- 19	<p>We:</p> <ul style="list-style-type: none">• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 19 June 2020;• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;• evaluated whether sufficient audit evidence could be obtained through remote technology;• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.
The revenue cycle includes fraudulent transactions (rebutted)	<p>OWe are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted. Therefore we do not consider this to be a significant risk for Maidstone Borough Council. Our audit work has not identified any issues in respect of revenue recognition.</p>

Significant audit risks

Risks identified in our Audit Plan

Management override of controls

Auditor commentary

We have undertaken work to:

- evaluate the design effectiveness of management controls over journals
- analyse the journals listing and determine the criteria for selecting high risk unusual journals
- test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Valuation of land and buildings

We have undertaken work to:

- evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluate the competence, capabilities and objectivity of the valuation expert
- write to the valuer to confirm the basis on which the valuation was carried out
- challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- test revaluations made during the year to see if they had been input correctly into the group'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.

As disclosed in notes to the financial statements, the outbreak of Covid-19 has caused uncertainties in markets. As a result, the Council's valuer has declared a 'material valuation uncertainty' in their valuation report. The Council's valuer prepared their valuations in accordance with the RICS Valuation Standards using the information that was available to them at the valuation date in deriving their estimates

As a result of the material uncertainty being identified on the valuation of Property, Plant and Equipment, our audit opinion will include a Emphasis of Matter, drawing attention to the material uncertainty identified.

During our audit work an omission in the valuations in prior period was identified in relation to the car park in Lockmeadow. This was discussed with the finance team and valuer and a prior period adjustment has been included in the final accounts.

We have obtained sufficient assurance over the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary

We have undertaken work to:

- update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- test 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;
- undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements and consider whether or not any material uncertainties exist in respect of asset values.

We are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.

Other audit risks

Risks identified in our Audit Plan**Auditor commentary****International Financial Reporting Standard (IFRS) 16
Leases – (issued but not adopted)**

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

We discussed the level of disclosure required with management and upon receipt of the draft financial statements feedback on the disclosure included. This resulted in minor amendments being made to ensure compliance with Code requirements.

Accruals

In our 2018-19 Audit Findings Report we reported that during creditor and accruals testing we had identified items which had been incorrectly accrued at year end resulting in a recommendation to ensure that all accruals are reviewed by the budget holders at year end to ensure they remain valid and are accrued at the appropriate level based on supporting information.


We have therefore identified accruals as a risk.

We have performed sample testing of accruals as part of our creditor testing with no issues identified.

Accounting for the consolidation of the subsidiary

As referenced on page 4, subsequent to the presentation of our Audit Plan the Council decided not to produce Group accounts on the basis of materiality. This was discussed with management during the audit and we are satisfied no group financial statements are required.

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
Land and Buildings – £91,042k	<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 (EUUV) at year end. The Council has engaged Harrisons Chartered Surveyor to complete the valuation of properties as at 30 November 2019. The valuation of properties valued by the valuer has resulted in a net increase of £2,687k. 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>In line with RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p>	<p>We have assessed management’s estimate, considering:</p> <ul style="list-style-type: none"> • Assessment of management’s expert • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against a national benchmarking report produced by our auditors expert, Gerald Eve • Reasonableness of the movement in estimate • Challenge of the sensitivities used by the valuer to assess completeness and consistency with our understanding • Adequacy of disclosure of estimate in the financial statements <p>We consider management’s process appropriate.</p>	

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 estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment																		
Net pension liability – £73.677m	<p>The Council’s net pension liability at 31 March 2020 is £73.677m (PY £71.481m) comprising the Kent Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>Our assessment of the estimate has considered:</p> <ul style="list-style-type: none"> • Assessment of management’s expert • Assessment of actuary’s roll forward approach taken, detail work undertaken to confirm reasonableness of approach • Use of PwC as auditors expert to assess actuary and assumptions made by actuary 																			
		<table border="1"> <thead> <tr> <th data-bbox="774 482 1392 554">Assumption</th> <th data-bbox="1392 482 1583 554">Actuary Value</th> <th data-bbox="1583 482 1831 554">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="774 554 1392 605">Discount rate</td> <td data-bbox="1392 554 1583 605">2.35%</td> <td data-bbox="1583 554 1831 605">●</td> </tr> <tr> <td data-bbox="774 605 1392 682">Pension increase rate</td> <td data-bbox="1392 605 1583 682">2.35%</td> <td data-bbox="1583 605 1831 682">●</td> </tr> <tr> <td data-bbox="774 682 1392 753">Salary growth</td> <td data-bbox="1392 682 1583 753">3.85%</td> <td data-bbox="1583 682 1831 753">●</td> </tr> <tr> <td data-bbox="774 753 1392 893">Life expectancy – Longevity at 65 for current pensioners - Males - Females</td> <td data-bbox="1392 753 1583 893">21.8 23.7</td> <td data-bbox="1583 753 1831 893">●</td> </tr> <tr> <td data-bbox="774 893 1392 993">Life expectancy – Longevity at 65 for future pensioners - Males - Females</td> <td data-bbox="1392 893 1583 993">23.2 25.2</td> <td data-bbox="1583 893 1831 993">●</td> </tr> </tbody> </table>	Assumption	Actuary Value	Assessment	Discount rate	2.35%	●	Pension increase rate	2.35%	●	Salary growth	3.85%	●	Life expectancy – Longevity at 65 for current pensioners - Males - Females	21.8 23.7	●	Life expectancy – Longevity at 65 for future pensioners - Males - Females	23.2 25.2	●	TBC
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		<ul style="list-style-type: none"> • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Assessment of the information received from pension fund auditor • Reasonableness of the Council’s share of LPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements • whether there are any material estimation uncertainties in respect of property values that need to be considered. 																			

We are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.

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 material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has included administration of grants to businesses, closure of leisure facilities and car parks with additional challenges of reopening services under new government guidelines; staff absences due to being ill, the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges.

Going concern commentary

Management's assessment process

Management's assessment process is based on your financial planning framework. You have a four year Medium Term Financial Plan (MTFP) covering the period 2020/21 to 2023/24.

Auditor commentary

- The Council has a history of achieving financial savings plans and delivering services within budget
- The Council has a comprehensive medium term planning framework. The MTFS is updated annually and integrated with your annual budget processes
- Management has concluded that it is appropriate to use the going concern basis of accounting.
- The Council has demonstrated that it has forecast the expected impact of loss of revenue and additional expenditure arising from the Covid-19 pandemic
- Management has determined that there are sufficient reserves at the end of March 2020 to cover the projected impact of Covid-19 in 2020-21.

Work performed

- The Council has delivered a revenue budget overspend of £237k for 2019/20.
- As at 31 March 2020 the draft accounts showed useable reserves of £17,193k.
- At the year end the Council has cash holdings of £10m. A cash flow forecast produced by management is forecasting deficit balances of £909k from October 2020 and a repayment of £4m of short term borrowing in November 2020. They have commented that they anticipate additional government support and the need to borrow later in the year. We requested a cashflow forecast to at least July 2021 updated to reflect these expectations.

Concluding comments

Our work has concluded and we are satisfied management's assessment is appropriate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the property valuations, which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation request(s) to banks and third parties with whom the Council has loans. permission was granted and the requests were sent. All but one of these requests have been returned to date with positive confirmation. We are in the process of following up the remaining confirmation.
Disclosures	Our review found no material omissions in the financial statements other than in relation to the inclusion of a post balance sheet event in relation to Covid-19 impacts.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, 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>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"><li data-bbox="476 478 1993 535">• 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<li data-bbox="476 549 1993 578">• If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Maidstone Borough Council in the audit report.</p>

Value for Money

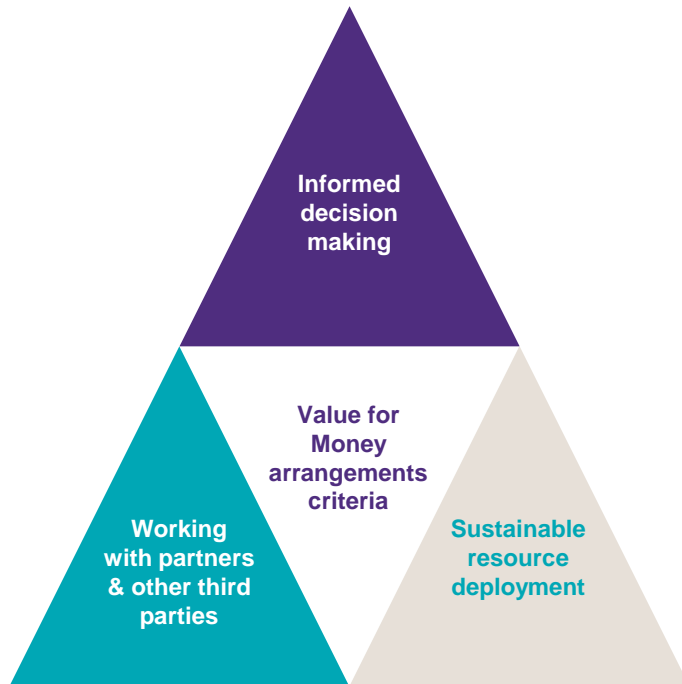
Background to our VFM approach

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 April 2020. 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 January 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 16 March 2020.

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.

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 2019/20 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 the challenges of Covid-19.

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 18 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.

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.

Value for Money

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

Overall Financial Position and Financial Resilience

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 (MTFS). The Council also plans to enter into significant levels of borrowing over the next few years.

We proposed to:

- review the assumptions behind the latest MTFS, covering the period up to March 2025;
- consider the 2019-20 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2020-21 budget
- 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
- review the capital strategy and discuss with management the proposals for debt management and the ability of the Council to meet its commitments

Revenue outturn for 2019/20

Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of service within budget and attainment of planned targets.

The Council has had a challenging year and has delivered a revenue budget overspend of £237k (2018-19: underspend of £154k). 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.

Budget for 2020/21 onwards

The Council presented three budget scenarios as part of their Medium Term Financial Strategy – ‘adverse’, ‘neutral’ and ‘favourable’. We have analysed the detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We discussed the key items with management and looked at the assumptions behind there and concluded that they were realistically and prudently estimated but remain challenging.

We have reviewed the assumptions and estimates which underlie the estimates of the additional revenues and savings included in the plans. We reviewed the 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.

We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.

Value for Money

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

Overall Financial Position and Financial Resilience (contd.) Fiscal indicators and reserves levels

The level of reserves in the Council's draft accounts is £62,057k comprising usable reserves of £17,193k (including £549k of capital receipts) and unusable reserves of £44,854k.

The general fund and earmarked general fund reserves as a percentage of net service revenue expenditure is 74%. The level of usable reserves, which include the general fund, earmarked reserves and capital receipts reserve, has increased from 2018-19 by 9.8%.

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.

Impact of Covid-19

The budget and planning discussed above was undertaken prior to the Covid-19 pandemic and the impact of lockdown measures on the frontline services of the Council which has included:

- Loss of revenue e.g. from car parking and leisure services
- Reduced levels of Council tax and Business rates collection
- Increased expenditure to support local business and to be able to continue to provide services in the changed circumstances.

The Council has received additional funding from central government. The amount received initially was £1.7m provided in two tranches. Further support was announced on 2 July 2020 and a further £274k was allocated to Maidstone Borough Council. Further detail relating to income support is also expected.

The finance team has responded to the impact by reviewing the assumptions in the 2020/21 budget and the expected income and expenditure streams, including the impact on achieving the planned capital programme. They have provided information to government through financial returns and to members to ensure they are aware of the challenges being faced by the Council. In June, the impact on 2020-21 was assessed and the net impact was forecast to be £6,450k in increased expenditure and reductions in income after taking into account the support already provided by central government. This is within the level of reserves available to the Council. The impact on the Council's cash flow position has also been highlighted. The Council had cash balances of £10.687k in the draft accounts however there were short term borrowings due of £11,000k within 2020-21.

The Council has continued to keep this under review and paper was produced in July the 2020-21 revenue budget forecasts were updated for the forecast Covid-19 impact. This amended the original net revenue budget from £18,935k to £24,625k. With any further mitigating actions the projected deficit is £8,563k. This is mitigated by the funding from central government already received and it is expected that, following the announcement on 2 July, further funding is expected. This enables the remainder to be covered by the unearmarked general fund reserves of £8,818k as at end of March 2020.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics


Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.




	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	22,000 (2018/19 fee)	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work was £22,000 in 2018/19 in comparison to the total scale fee for the audit of £38,866 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>Declarations of interest</p> <p>During our testing of related party disclosures we requested the latest declarations for review. The Council sends these to members on an annual basis and they were sent on 9 April 2020. At the time of the audit work in July, 17 forms remained outstanding and had not been received from members.</p>	<p>We recommend that the process for managing the distribution and collections of returns is reviewed and the importance of responding is reiterated with members.</p> <p>Management response</p> <p>We accept this recommendation and will be reviewing our processes to ensure that declarations of interest are collected promptly in future</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Maidstone Borough Council's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	During our creditor and accruals testing we identified items which had been incorrectly accrued for at the year end. We recommended that all accruals be reviewed at year end for validity and accuracy.	Our testing of this area in 2019-20 has not identified any issues.

Assessment

- ✓ Action completed
- X Not yet addressed

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

Adjustments were made between the first version of the accounts presented for audit and the final version to include presentational and classification adjustments for preceptor balances and the Kent Business Rates Pool. This resulted in adjustments to the Net Assets between debtors, creditors and provisions with a net nil impact and nil impact on the Comprehensive income and Expenditure Statement.

The other 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – Opening property, plant and equipment value		2,050	
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – Opening revaluation reserve (This adjustment was processed in 2018-19 and appears as a restatement in the prior year as well)		(2,050)	
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – movement on revaluation in 2019-20	2,050	(2,050)	2,050
Reclassification of capital receipt – adjustment to gain on disposal of assets and reduction in income from 'Fees, charges and other service income'	1,030 (1,030)		0
Adjustment for disposal of Brunswick carpark	288	(288)	288
Overall impact	£2,338	£(2,338)	£2,338

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Inclusion of subsequent event in relation to the impact of Covid-19	Due to the significant impact of Covid-19 on the Council's finances post year end we recommend the inclusion of specific disclosure in the accounts in line with the type of information included in the narrative statement.	

Audit adjustments

Impact of unadjusted misstatements

Our work to date has not identified an unadjusted misstatements above triviality.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Creditors		189.		
Expenditure	(189)		(189)	
The accruals balance was overstated as sample testing of the creditors balances identified 4 errors. All errors resulted in an over accrual in the accounts.				The error is immaterial
Overall impact	189	(189)	(189)	

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	46,366	TBC
Total audit fees (excluding VAT)	£46,366	£TBC

The fees reconcile to the financial statements.

Non-audit fees for other services	Final fee
Audit Related Services – Housing Benefit Subsidy claim 2018-19	22,000
Total non- audit fees (excluding VAT)	£22,000

Audit opinion

We anticipate we will provide the Council with an unqualified audit report with an Emphasis of Matter

To follow

Management letter of representation

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

[Date] – (TO BE DATED SAME DATE AS DATE OF AUDIT OPINION)

Dear Sirs

Maidstone Borough Council Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Maidstone Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud..

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions. We confirm that we have considered the prior period adjustment in relation to property, plant and equipment and confirm there are no other material omissions in prior year.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Management letter of representation

- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xv. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries. As a consequence economic activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence, to inform opinions of value. Indeed, the current response to COVID 19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The Council's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the Council's land and buildings than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the valuers recommend that the Council keeps the valuation of its properties under frequent review. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case

Information Provided

- xvi. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of your audit; and
 - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on [ENTER DATE].

Yours faithfully



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