



The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2020

18 January 2021



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

Section

	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	10

Appendices

A	Reports issued and fees
---	-------------------------

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 16 November 2020.

Our work

Respective responsibilities

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

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

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,800,000, which is 2% of the Council's prior year expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

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.

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.

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. Remote working inevitably increased the time taken to execute the audit efficiently in 2019/20

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

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,800,000 which is 2% of the Council's prior year expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for related parties and senior officer remuneration.

We set a lower threshold of £100,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p>	<p>As part of our audit work we have:</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. 	<p>We have nothing to report in relation to this risk.</p>
<p>Management override of internal controls</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated 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>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • undertook 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 • obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements and consider whether or not any material uncertainties exist in respect of asset values. 	<p>The Kent Pension Fund accounts included a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we requested that the Council refer to this in the notes to the accounts and we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.</p> <p>The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the group's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. <p>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</p>	<p>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.</p> <p>The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.</p> <p>The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit, Governance and Standards Committee on 16 November 2020.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the Council's management to address for the next financial year:

- Timeliness of declarations of interest responses

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report.

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

Whole of Government Accounts (WGA)

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

Other statutory powers

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Overall Financial Position and Financial Resilience</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). The Council also plans to enter into significant levels of borrowing over the next few years.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • reviewed the assumptions behind the latest MTFS, covering the period up to March 2025; • considered the 2019-20 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2020-21 budget • reviewed the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFS • reviewed the capital strategy and discuss with management the proposals for debt management and the ability of the Council to meet its commitments 	<p>Revenue outturn for 2019/20</p> <p>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.</p> <p>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.</p> <p>Budget for 2020/21 onwards</p> <p>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.</p> <p>We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.</p> <p>Impact of Covid-19</p> <p>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. 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.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	16 March 2020
Audit Findings Report	16 November 2020 Updated 18 January 2021
Annual Audit Letter	18 January 2021

Fees

	Planned £	Actual fees £
Statutory audit	46,366	53,316
Total fees	46,366	53,316

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £38,866 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following page.

Fee variations are subject to PSAA approval.

A. Reports issued and fees

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £38,866 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Pensions - valuation of net pension liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,750
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
New standards / developments	Additional work required for changes in standards.	1,500
Total		7,500

Fee variations are subject to PSAA approval.

Audit fee variation – Covid-19

Additionally, over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements has been multifaceted. This included:

- Revisiting planning- we have needed to revisit our planning and refresh our risk assessments, materiality and planning as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion included an emphasis of matter in respect of this.
- Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.

We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020> sets out the expectations of the FRC.

Prior period adjustment

- Additional time required to investigate and resolve the prior period adjustment related to the car park

In the case of Maidstone Borough Council, the increase will be 15% or £6,950. This has been included in the final fee on page 12.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	£22,000
– Housing Benefit Subsidy claim 2018-19	

Non-audit services

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

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



© 2020 Grant Thornton UK LLP. All rights reserved.

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

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