

# Maidstone Borough Council Audit Progress Report and Sector Update

**Year ending 31 March 2022**

March 2023



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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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# Introduction



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This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority; and

Members of the Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk)

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Key Audit Partner or Engagement Manager.

# Progress at March 2023

## 2020/21 audit

We reported the findings from our 2020/21 audit in our updated Audit Findings Report to the November 2022 Audit, Governance and Standards Committee. We gave an unqualified opinion on the 2020/21 financial statements on 18 November 2022.

Our final fee for the 2020/21 audit is £71,866. This compares with our Audit Plan fee of £61,866. The additional fee reflects the volume of work associated with the technical issues and audit amendments reported in our Audit Findings Report, in particular those relating to the accounting for the Brunswick St./Union St. housing developments and the calculation of the Council's capital financing requirement.

Our final fee is subject to approval by Public Sector Audit Appointments.

## 2021/22 audit

### Financial statements

The Council originally published draft 2021/22 financial statements in July 2022.

Given the nature of the issues identified in the 2020/21 accounts our risk assessment framework required a detailed review (or "hot review") of the 2021/22 draft accounts by our audit technical team. We shared the outcomes from this review with management in November 2022. A significant number of points required further action.

A number of amendments to the 2020/21 accounts agreed after July 2022 also had implications for the 2021/22 accounts. Given the issues identified by the hot review and our 2020/21 audit it was agreed that these would require material changes to the version of accounts published in July 2022 and therefore that a revised draft of the

2021/22 accounts would be produced before the start of the 2021/22 audit.

The need to prioritise other finance team work meant that this revised draft was first made available on 11 January 2023. This initial draft excluded the Cash Flow statement. A complete version of accounts including the Cash Flow Statement was made available on 20 February 2023.

Our audit of the 2021/22 accounts commenced in early January 2023. The overall volume of audit work which will be required has increased in 2021/22, in part due to issues arising from the hot review but also the continuing impact of FRC requirements, changes to auditing and accounting standards and developments in our audit approach.

We have agreed a framework of arrangements with management to progress the audit. The approach from officers has been positive. However, there have also been competing demands on key members of the finance team over this period, in particular relating to budget-setting, billing and financial reporting; these pressures have prevented the team from responding promptly to all queries and this has caused some delays to the audit process.

The timing of the audit has also had some impact on the make-up of the audit team; although a full team has been engaged on the audit since early January, the team is generally new to Maidstone and it is recognized some members have limited previous experience of local government audit.

At the time of writing this report the key areas of outstanding work are;

**Audit sample testing:** Audit work in many areas involves sample testing of transactions. A summary of the current position is at page 6. This summary excludes work on collection fund reliefs and discounts where we are awaiting the relevant reports to allow the selection of samples for testing. All audit work remains subject to review procedures.

# Progress at March 2023 (cont.)

**Information from the Council's external valuer:** Our work on Property, Plant and Equipment (PPE) and investment property revaluations will require supporting information from the Council's external valuer. We provided an information request to the external valuer on 16 February and have followed up on a number of occasions without obtaining an acknowledgement. This has now been provided on 1 March. We understand work to address our audit queries is now in progress.

**Hot review queries:** A number of the issues raised by the hot review were addressed by the revised set of accounts received in January 2023. However, other issues will require further work by management to clarify the position. Initial responses have currently been provided for 37 items with responses for 13 items still to be received. We are currently working through the information provided. Review and clearance by the audit technical team of all responses will be required before concluding our audit.

We are currently aiming to conclude our audit in April 2023, ahead of starting our work on NHS accounts, and to report our findings to the July 2023 Audit, Governance and Standards Committee. However, completion of our work on this timescale will only be possible if ;

- there is prompt action to provide the remaining sample items and respond to the outstanding queries; and
- no significant issues arise which require detailed investigation or further significant audit amendments.

It will also depend on there being sufficient appropriate capacity on the audit side to progress any outstanding work.

Subject to the completion of work on our 2021/22 audit our aim is to commence planning work on our 2022/23 audit in July 2023.

## Value for money

Our 2021/22 value for money work commenced in March 2023.

We report the findings from our value for money work in our Auditor's Annual Report. Under guidance issued by the National Audit Office we are required to issue our Auditor's Annual Report no more than three months after the date of the opinion on the financial statements.

We are aiming to complete our value for money work in April 2023. We anticipate reporting our findings in line with the guidance issued by the National Audit Office.

## Other areas

### Events

We provide a range of workshops, networking events for members and publications to support local authorities. Your officers attended our 2022/23 Accounts Workshop in February 2023, where we identified financial reporting and audit issues relevant to the 2022/23 local authority accounts.

## Outstanding invoice

The Council's audit is performed under the framework of arrangements stipulated by Public Sector Audit Appointments, including the need to pay a fee for the audit. Audit fees are invoiced using a quarterly billing cycle.

Our invoice for the Q3 and Q4 fees in respect of the 2021/22 audit was issued in June 2022. This invoice remains unpaid. The issue has been raised on a number of occasions with management.

We are not aware of any other councils audited by GT (approximately 40% of all local authorities) which have not paid the 21/22 fee as required by the contract with PSAA .

Our firm's risk assessment procedures will require this issue to be resolved before we can perform any work on the 2022/23 audit.

# Progress at March 2023 (cont.)

Sample Area	Sample size	Items to be provided by the finance team	Follow-up query with the finance team	With audit for processing	Items cleared
Payroll	31	0	0	0	31
Journals	25	0	15	0	10
PPE and investment property (additions and transfers)	22	1	7	12	2
PPE and investment property (revaluations)	46	0	46 (external valuer input required)	0	0
Other Expenditure and REFCUS	25	5	0	2	18
Housing benefit payments	12	0	0	12	0
Debtors and creditors	46	28	0	0	18
Grant income (including capital grants)	15	7	0	8	0
Fees and charges income (including investment property rental income)	24	2	0	7	15
Capital grants received in advance and Capital receipts	12	7	0	0	5
Collection Fund	22	22	0	0	0

# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 437"><b>Audit Plan</b></p> <p data-bbox="120 456 1323 560">We are required to issue a detailed audit plan setting out our proposed approach to give an opinion on the 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	November 2022	Issued
<p data-bbox="120 584 421 612"><b>Audit Findings Report</b></p> <p data-bbox="120 632 1263 660">The Audit Findings Report summarises the outcomes from our financial statements audit.</p>	July 2023	To be completed
<p data-bbox="120 700 338 729"><b>Auditors Report</b></p> <p data-bbox="120 748 736 777">This is the opinion on your financial statements.</p>	July 2023	To be completed
<p data-bbox="120 817 450 845"><b>Auditor's Annual Report</b></p> <p data-bbox="120 865 1155 893">This Report communicates the key issues arising from our Value for Money work.</p>	July 2023	To be completed

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

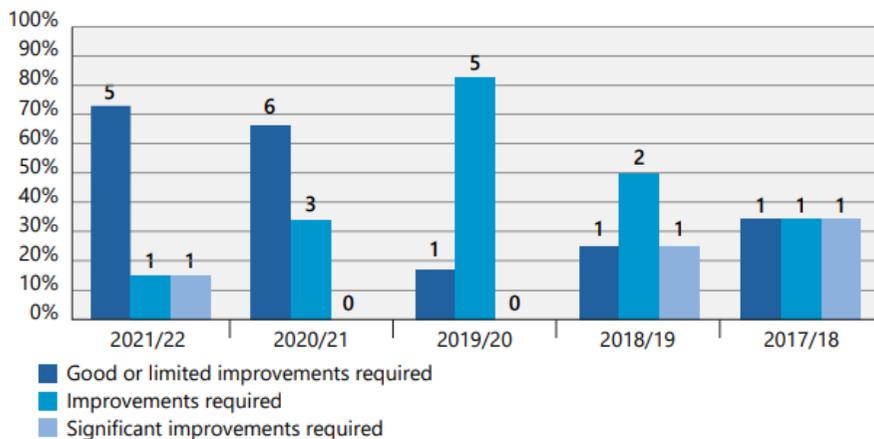
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

### Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



# Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

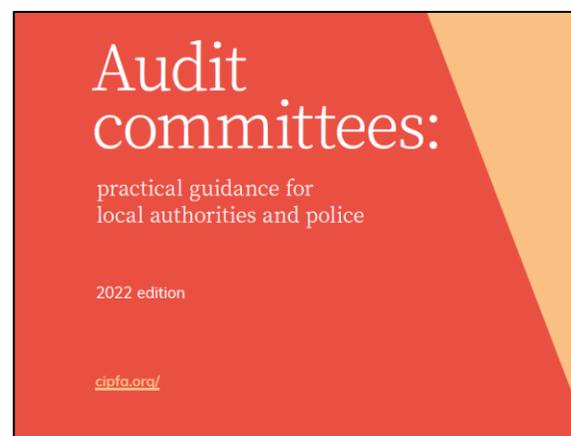
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)



# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

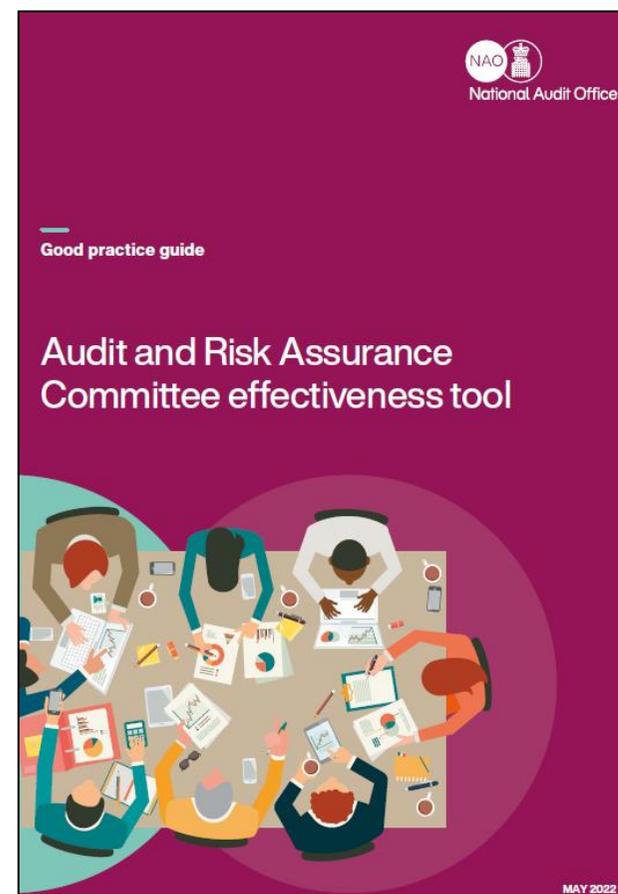
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



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