

Maidstone Borough Council indicative audit plan

Year ending 31 March 2024

July 2024



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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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Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing section 114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit reporting delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters

Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this indicative audit plan.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance, Resources and Business Improvement quarterly, as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit, Governance & Standards Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We have followed up on management's progress against prior year audit findings recommendations, detailed on pages 12-13.
- For VFM, we will follow up the key recommendation and 13 improvement recommendations raised in the joint year 2021-22 and 2022-23 Auditor's Annual Report, and report on management's progress against these recommendations in our 2023-24 Auditor's Annual Report.
- We will continue to provide you and your Audit, Governance & Standards Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our audit committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Maidstone Borough Council ('the Council') for those charged with governance.

Respective responsibilities

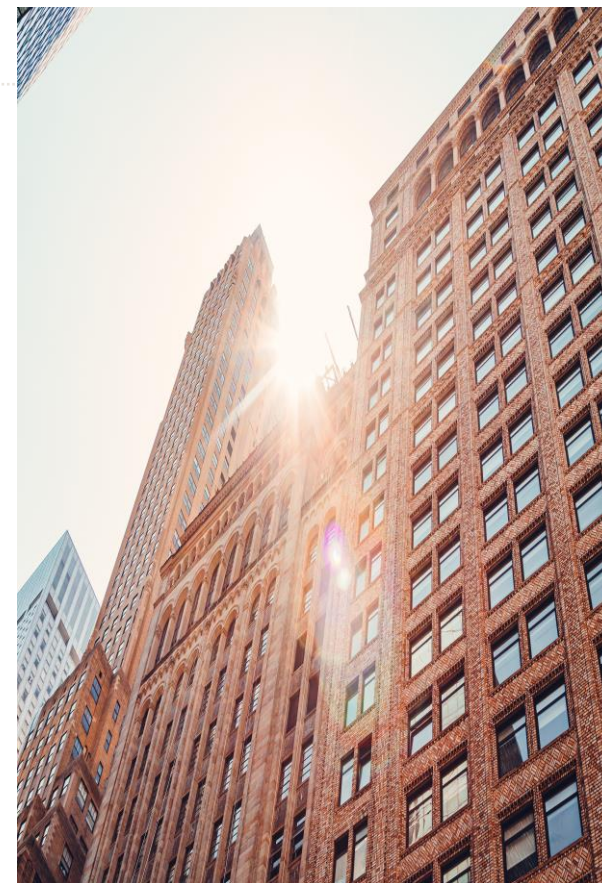
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This indicative audit plan sets out the implications of the revised code on this audit. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Maidstone Borough Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit, Governance & Standards Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit, Governance & Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Risk of fraud and error in revenue recognition (rebutted for all income streams)
- Management override of controls
- Valuation of land and buildings, including investment properties
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.865m (PY £1.84m) for the Council, which equates to 2% of your prior year gross operating costs for the year.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.093m (PY £0.092m).

We design our procedure to detect errors in specific accounts at a lower level of precision, therefore we have determined lower materiality of £20,000 for an individual senior officer's remuneration, exit packages or termination benefits.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money for 2023-24 is ongoing. At this stage we have not identified any risks of significant weakness.

We will continue to update our risk assessment until we issue our 2023-24 Auditor's Annual Report.

Audit logistics

Our planning visit took place in March 2024 and our final visit will take place in October 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Under our new framework contract with PSAA, our scale fee for the 2023-24 audit will be £149,006 (PY: £90,715) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. The fee for work in relation to ISA 315 is £7,530. The total proposed fee for 2023-24 is £156,536.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how it reports performance.</p> <p>We have therefore identified management over-ride of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation effectiveness of management controls over journals. • Analyse the journals listing using data analytics tools and determine the criteria for selecting high risk unusual journals. • Test unusual journals made during the year and at year end for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Risk of fraud and error in revenue recognition (rebutted for all income streams)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including that of the Council, meaning that all forms of fraud are seen as unacceptable. <p>We do not consider this to be a significant risk for the Council.</p>	

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, including investment properties	<p>The Council re-values its other land and buildings, and investment properties to ensure that the carrying value of its assets are not materially different from the current value at the financial statements date.</p> <p>The valuation of land and buildings, and investment properties represents a key accounting estimate which is sensitive to changes in assumptions and market conditions. Management has appointed external valuation expert to carry out the valuation as at 31 March 2024.</p> <p><u>Other land & buildings (PY £118m)</u>: The Council re-values its other land and buildings on a rolling five-yearly basis. The Council applies valuation techniques and key assumptions are made by the valuer to determine the current value of the assets at financial statement date.</p> <p><u>Investment properties (PY £44m)</u>: The Council measures and re-values its investment properties at fair value on an annual basis at each year end.</p> <p>We therefore identified valuation of other land and buildings, and investment properties as a significant risk, particularly key assumptions and inputs applied by the valuer at the financial statement date.</p> <p>Pinpointing the significant risk:</p> <p>We plan to pinpoint the significant risk around the following:</p> <ul style="list-style-type: none"> • Assets that are material; • Assets where the change in valuation is outside our expectation based on market indices; • Significant changes in key assumptions applied in valuation of assets from the prior year; and • Other factors considered to increase the risk of material misstatement based on auditor judgement. 	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert engaged by the Council. • Write to or discuss with the valuation expert engaged by the Council, the basis on which the valuations were carried out. • Challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding. • Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register and financial statements. • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The estimation of the pension fund net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A small change in the inputs can have a significant impact on the estimated pension fund liability. The Council has engaged a consulting firm of actuaries (Barnett Waddingham LLP) to complete the valuation of the net pension liability as at 31 March 2024.</p> <p>The pension fund valuation is considered a significant estimate due to the size of the numbers involved net liability of £10.344m as at 31 March 2023 and the sensitivity of the estimate to changes in key assumptions.</p> <p>We have therefore identified the valuation of the Council's pension fund as a significant risk.</p> <p>Pinpointing the significant risk:</p> <p>We plan to pinpoint the significant risk around the following:</p> <ul style="list-style-type: none"> • Key assumptions applied by actuary; • Significant changes in assumptions applied from the prior year; • Material experience gain or losses recorded in the accounting period; and • Other factors considered to increase the risk of material misstatement based on auditor judgement. <p>We have concluded that there is not a significant risk of material misstatement relating to the source data used by the actuary in their calculation. We will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements) of staff which would need to be given special considerations during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • 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 Council's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Council to the actuary to complete the pension fund valuation. • Test the consistency of the pension fund 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. • Obtain assurances from the auditor of Kent County Council 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.

Other risks identified

We will communicate significant findings on this area as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate expenditure recognition; • opportunities to manipulate expenditure recognition are limited; and • the culture and ethical frameworks of local authorities, including that of the Council, mean that all forms of fraud are seen as unacceptable. <p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the estimation of the accrual was consistent with the value billed after the year. • Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA [UK] 315)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2022-23 audit of the Council's financial statements, which resulted in 3 recommendations being reported in our 2022-23 Audit Findings Report. We have followed up on the implementation of our recommendations and all are still in progress.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	<p>Debtor and creditor year end listings</p> <p>Management has been unable to prepare year end debtor and creditors listing in a format to show the value of each individual debtor or creditor balance owed at 31 March 2023. Instead, the system computes the year-end balance by taking the rolled forward balance of the prior year, plus or minus the movement in year to compute the aggregate account closing balance.</p> <p>Although the closing balances are not materially misstated, there is a risk that by not recording the individual debtor/creditor balances the Council may not be able to identify individual debtor or creditor transactions, making it difficult ascertain the correct age of the debtors and creditors, and making it challenging to apply specific provisions if required. Further, this impacts the time taken by the audit team to draw samples and test the closing balances efficiently.</p>	Management is in the process of ensuring that quality assurance is completed for the 2023-24 accounts.
Ongoing	<p>Journal control environment</p> <p>From our understanding of journals entry process control environment and the risk of management override of controls, we identified that two members of the finance team have 'super user' rights for the financial reporting system. We have noted that these individuals are in charge of reviewing access rights on a monthly basis, and they fulfil the responsibilities of any absent individuals.</p> <p>There is a risk of segregation of duties while these individuals temporarily fulfil an absentee's role. Moreover, granting super user rights to finance team members increases the risk of management override of controls since the individuals are involved in the journal posting process and have full access to the system.</p>	Please note that there is only one super user at the Council since one has left.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	<p>Related parties – declaration forms</p> <p>While reviewing and testing the 2022-23 related parties disclosure we identified that the Council did not obtain related party disclosure forms for 5 Senior Officers and Members (5 responses missing) which is a breach of controls put in place by the Council.</p> <p>There is a risk that all related party transactions and interests are not recorded in a timely manner for reflecting in the financial statements.</p>	<p>Management will endeavour to ensure these are 100% for 2023-24. For key decisions, the councillors involved will have to confirm if they need to disclose any such matter during the meetings (as part of the formal process we run through our governance), which should reduce the risk.</p>

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.

Matter	Description	Planned audit procedures
1	Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.865m, which equates to 2% of your prior year gross expenditure.	We determine planning materiality in order to: <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20,000.

Our approach to materiality

Matter	Description	Planned audit procedures
3	Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	Other communications relating to materiality we will report to the Audit, Governance & Standards Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Governance & Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit, Governance & Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.093m (PY £0.092m). If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance & Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

	Amount £	Qualitative factors considered
Materiality for the Council financial statements	1,865,000	2% of the gross expenditure for the year ended 31 March 2023.
Trivial matters	93,000	This is 5% of materiality.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	20,000	This note is an element of the accounts which is of genuine concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity. The area requiring judgement is what level of error within the disclosures made would result in us qualifying our opinion. We have set a materiality of £20,000 for individual senior officer's remuneration. We will review the senior officer's remuneration, exit packages and termination benefits disclosures which are above this threshold.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT system has been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	Financial reporting – general ledger	<ul style="list-style-type: none"> Obtain an understanding of the information technology general controls over the general ledger and review design and implementation of those controls. Review any local controls which are managed within the Council (design and implementation effectiveness only).

We have not identified significant changes during the period affecting the IT controls of the Council and therefore no additional audit procedures will be completed.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.



We have yet to conclude on our detailed Value for Money planning procedures. We will update the Audit, Governance and Standards Committee on the outcome of these planning procedures, our resulting risk assessment and our planned response to any identified risks of significant weaknesses in arrangements at a future Audit, Governance and Standards Committee meeting.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this indicative Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023-24. Our VFM planning work for 2023-24 is not yet complete, and we will update you separately once this has concluded.

Criteria	2022-23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Amber	No significant weaknesses in arrangements identified, but one improvement recommendation made.	
Governance	Amber	No significant weaknesses in arrangements identified, but five improvement recommendations made.	We will follow up progress against the key recommendation made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified, but four improvement recommendations made.	

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Audit logistics and team



Sophia Brown, Key Audit Partner

Sophia is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting with key internal stakeholders and final authorisation of reports. Sophia will share her wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Sophia will ensure our audit is tailored specifically to you and is responsible for the overall quality of our audit work.



Asad Khan, Audit Manager

Asad will work with your finance team to ensure efficient delivery of testing and agreement of accounting issues on a timely basis. Asad will undertake review of the team's work and draft reports. He is the key contact responsible for delivery of the audit.

Audited entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on pages 3 and 4)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2018, PSAA awarded a contract of audit for Maidstone Borough Council to begin with effect from 2018-19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023-24 audit is £149,006.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous audit year (exception for new clients in 2023-24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated auditing standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

Proposed fee 2023-24

Maidstone Borough Council audit	£149,006
ISA 315	£7,530
Total audit fees (excluding VAT)	£156,536

Previous year

In 2022-23 the scale fee set by PSAA was £46,365. The actual fee charged for the audit was £90,715.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”
In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months)

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset.

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures, we have sent the inquiries to the management with our other audit queries. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx \[publishing.service.gov.uk\]](#)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit (Subsidy) Assurance Process 2022-23	£32,400	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this 2022-23 work was £32,400 in comparison to the total fee for the audit of £90,715, 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.
Housing Benefit (Subsidy) Assurance Process 2023-24	TBC	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this work in 2022-23 was £32,400 in comparison to the total fee for the audit of £90,715, 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

There are proposals to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial communication with the Director of Finance, Resources and Business Improvement (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Director of Finance, Resources and Business Improvement to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding.

Step 4 - Escalation to the Audit, Governance & Standards Committee (at next available Audit, Governance & Standards Committee meeting or in writing to Audit, Governance & Standards Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit, Governance & Standards Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022-23, planned to be by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - [Consultations on measures to address local audit delays \(frc.org.uk\)](https://www.frc.org.uk/consultations/consultations-on-measures-to-address-local-audit-delays)
- DLUHC landing page - [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- NAO landing page - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](https://www.nao.org.uk/consultations/code-of-audit-practice-consultation)

The calling of a general election on 4 July 2024 puts the above timetable in considerable doubt. The elected Government will decide if it wants to implement the backstop solution and, if so, determine the timetable by which it happens. In the meantime, we will continue with the timeframe for your 2023-24 audit as outlined in this indicative audit plan, aiming to complete our work by 31 December 2024.

