



The Audit Findings for Maidstone Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

September 2014

Darren Wells

Director

T +44 (0)1293 554 120

E darren.j.wells@uk.gt.com

Keith Hosea

Manager

T +44 (0)20 7728 3231

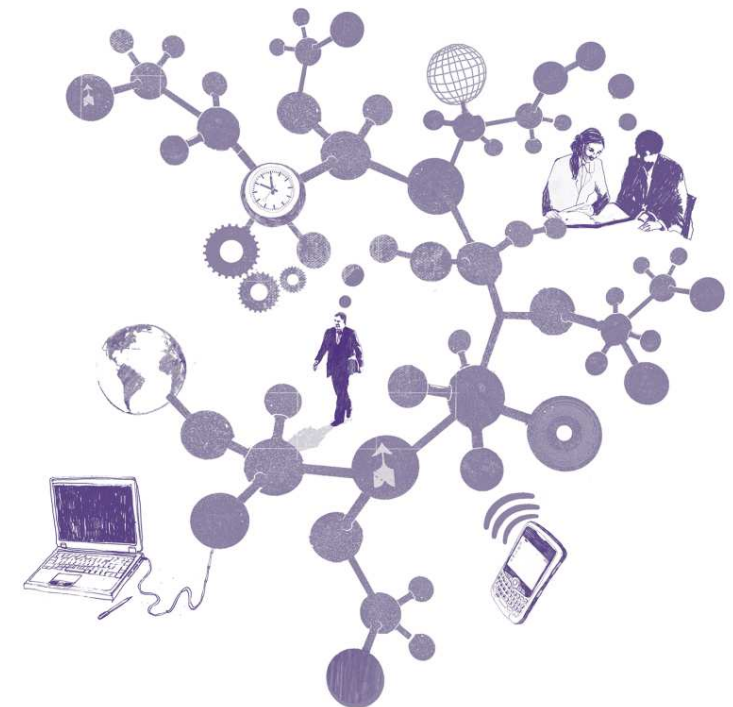
E keith.j.hosea@uk.gt.com

Hazel Strudwick

Executive

T +44 (0)1293 554 130

E hazel.j.strudwick@uk.gt.com



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

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.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	19
4. Fees, non audit services and independence	25
5. Communication of audit matters	27
Appendices	
A Action plan	30
B Audit opinion	31

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Maidstone Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It reports our audit findings to officers and the Council's Audit Committee as those charged with governance, in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have made one change to our planned audit approach, which we communicated to you in our Audit Plan dated 14 July 2014, reducing the severity of council tax local support as a specific potential risk. We tested substantively a sample of cases in receipt of local support as part of our testing of council tax revenue.

Our audit is substantially complete although we are finalising our work in the following areas as at 3 September 2014:

- testing of housing benefit to inform our opinion as well as certification of the HB subsidy claim;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The statements presented for audit were of a generally good standard, following a detailed review by the Chief Accountant, and the Council has sought to reflect the CIPFA guidance around valuing all assets within a single class at the same time. Working papers have been of a satisfactory standard, and officers responded promptly to requests for further information.

The key messages arising from our audit of the Council's financial statements are:

- we identified 3 adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). None of the changes made have affected the Council's general fund balance at the reporting date, which reflects an increase in balances of £2.851 million. We also identified a number of adjustments to improve the presentation of the financial statements.
- the Council has addressed the issue we identified last year around the balances relating to the collection fund, although officers need to formalise the process for reconciling the revenues system and ledger to ensure that variances are dealt with on a timely basis.
- the Council needs to demonstrate on an annual basis that the valuation of property, plant and equipment reflects the fair value at the balance sheet date of the assets in use. You have provided documentation for this assumption, but this needs to be done as a matter of routine.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion. Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable and plan to complete this at the same time as giving the opinion on your financial statements.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- reconciliations between the council tax and business rates systems and general ledger; and
- identification controls for officers making changes to the Academy system.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Regeneration and Communities and the Head of Financial Services.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Regeneration and Communities and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 14 July 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

In the conduct of our audit we have made one change to our planned audit approach, which we communicated to you in our Audit Plan dated 14 July 2014, reducing the severity of council tax local support as a specific potential risk. We tested substantively a sample of cases in receipt of local support as part of our testing of council tax revenue.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion as set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> We have reviewed the disclosure of your revenue recognition policies and tested to ensure revenue is recognised consistently with them. We have tested material revenue streams to ensure that revenue is accounted for appropriately. We have reviewed and sought explanations for unusual significant transactions. 	<p>Our audit work has not identified any issues in respect of revenue recognition. We have made some comments in respect of improving the disclosure of your revenue recognition accounting policies (see page 13).</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> We reviewed the basis and disclosure of significant accounting estimates, judgements and decisions made by management. We tested journal entries made during the year and as part of consolidation. We reviewed and obtained explanations for any unusual significant transactions identified during the course of our audit. 	<p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We have not identified any unusual significant transactions during the course of our audit.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We documented our understanding of the processes and key controls over the transaction cycle, including a walkthrough of the key controls to ensure they were designed effectively. We carried out testing to determine whether expenditure is valid, relates to the Council and has been fully and correctly recorded within the Council's financial systems. We tested payments made after the year-end to ensure they were recorded as expenditure and where appropriate accrued in the correct financial year. We tested a sample of accrued liabilities to ensure they were valued appropriately. We reviewed minutes and made enquiries of appropriate officers to ensure that litigation and claims against the Council were not understated in the accounts. 	<p>Our audit work identified one significant misstatement in relation to the risk identified.</p> <p>We identified balances of £1.606m in relation to monies from the Department of Communities (DCLG) which were incorrectly recorded as both a debtor and creditor, but had been received by the Council before the year-end. We carried out further testing on the creditors balance to ensure that this was not a systemic error and were able to conclude that this was an isolated case.</p> <p>We also identified a disclosure error in note 26 to the accounts where a £539k creditor to the HMRC was incorrectly disclosed in balances due to 'other entities and individuals' rather than to 'other government bodies'.</p> <p>Officers have agreed to correct these two errors in the financial statements, presented for approval.</p>
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We documented our understanding of the processes and key controls over the transaction cycle, including a walkthrough of the key controls to ensure they were designed effectively. We reconciled employee remuneration costs in the financial statements to the payroll system and returns made to HMRC. We carried out a trend analysis to ensure that monthly payroll totals were in line with expectations. We tested a sample of payments made through payroll to ensure they were in line with officers' contracts and supported by appropriate documentation. 	There were no significant issues arising from our work to draw to your attention.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of the processes and key controls over the transaction cycle, including a walkthrough of the key controls to ensure they were designed effectively. • Reconciled benefit expenditure to the benefit subsidy claim and assessed the impact of any significant differences. • Reviewed the system parameters for uprating and the benefit software diagnostic tool. • Carried out an analytical review of year on year variances and comparison to national data • Tested a sample of housing benefit claims as part of the certification of the 2013/14 benefit subsidy claim. 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p> <p>Some of our testing is still in progress at the time of preparing this report. We will verbally update the committee at its meeting on 15 September following completion of the work.</p>
Property, plant & equipment	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of the processes and key controls over the transaction cycle, including a walkthrough of the key controls to ensure they were designed effectively. • We evaluated the qualifications and work of your valuers. • Checked whether all assets in particular classes have been revalued and ensured the basis of valuation is appropriate. • Where assets have not been revalued, review the basis for that decision and ensure the estimation uncertainty is adequately disclosed in the financial statements. 	<p>We are satisfied that it is appropriate to place reliance on the work of the Council's valuers as experts.</p> <p>We are satisfied that the assets revalued in 2013/14 have been valued on an appropriate basis and that the Council has reflected CIPFA's enhanced guidance on the requirement to revalue all assets in a class by dividing other land and buildings into smaller classes of asset and revaluing all assets in each class. The Council has exceptionally valued other assets where there is a clear rationale for this such as demolition or significant enhancement.</p> <p>The Council has provided evidence to demonstrate that the carrying value of assets which have not been formally revalued in year is not materially different from their fair value. We are satisfied with the basis of this judgement.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition policies</p>	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction In both cases, revenue is recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the Council. 	<p>The Council's policy follows the proforma policy in the Guidance Notes for Practitioners and is appropriate to its circumstances. We have not identified any transactions which require particular exercise of judgement and need greater explanation.</p> <p>The Code requires authorities to disclose their accounting policies in respect of revenue recognition. As the basis of recognition for council tax and business rates is substantially different to revenue from goods and services, we recommended that you include specific accounting policies for council tax and business rates to more clearly explain when you recognise and measure revenue from these sources. You have agreed to address this in your updated financial statements.</p>	<p style="text-align: center;"> Amber</p>
<p>Judgements</p>	<p>Key judgements include:</p> <ul style="list-style-type: none"> Whether any assets should be recognised as service concessions under IFRIC 12 Whether any service contracts are dependent on the use of specific assets and should be recognised as leases under IFRIC 4. Whether leases are operating or finance leases under IAS 17. Whether assets should be classified as Property, Plant and Equipment, Investment Properties or Heritage Assets. 	<p>We have reviewed the basis of these judgements and are satisfied that the Council's treatment of these arrangements is in line with the relevant financial reporting standards and that disclosure in Note 2 to the accounts provides the reader with sufficient information to understand the judgements.</p>	<p style="text-align: center;"> Green</p>

Assessment



- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
estimates	<p>Key estimates include:</p> <ul style="list-style-type: none"> • The useful life of capital assets • The valuation basis of the pension fund asset and liability • Provision for appeals against business rating valuations • Provision for bad and doubtful debts <p>We deal separately overleaf with the valuation of property, plant and equipment.</p>	<p>We have reviewed the bases of these estimates, relying where appropriate on the work of experts to inform our understanding and to gain assurance.</p> <p>We are satisfied that the bases of these estimates appears reasonable and that the council's financial statements are not materially misstated as a result.</p> <p>We have recommended that the Council provide more information in Note 3 to its statements on the basis of:</p> <p>a) The valuation of property, plant and equipment. This originally referred only to the basis of depreciation, and not the value of the assets as a whole.</p> <p>b) The basis of its provision for appeals against business rating valuations and the assumptions and sources of uncertainty underlying this valuation.</p>	<p> Amber</p>
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Other than the points made above, we were satisfied that your accounting policies were in line with the CIPFA Code and appropriate to your circumstances.</p>	<p> Green</p>

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit. We are required to report all non trivial misstatements to the Audit Committee, whether or not the financial statements have been adjusted by officers. The table below summarises the adjustments arising from the audit which have been processed by management. We have not identified any misstatements that officers have declined to amend the draft statement of accounts for.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Council's share of council tax credited to the CIES was incorrectly calculated. As there is a statutory override this does not ultimately affect the position on the general fund.	Dr CIES 141 (taxation and non-specific grant I&E)	Cr CFAA 141	
2 Council's share of business rates credited to the CIES was incorrectly calculated. As there is a statutory override this does not ultimately affect the position on the general fund.	Cr CIES 270 (taxation and non-specific grant I&E)	Dr CFAA 270	
3 Accounts incorrectly include both a debtor and creditor balance for amounts due from DCLG which were received before the year end.		Dr Creditors 1606 Cr Debtors 1606	Nil
Overall impact	Cr £129k	Dr £129k	Nil

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Financial Instruments (Note 21)	A number of amendments were required to ensure that all and only financial instruments were disclosed in this note. These have all been agreed with management and only affect disclosure in the statements.
2 Disclosure	3,971	Grant Income (Note 15)	New Homes Bonus and Flood Relief Grant are incorrectly disclosed as credited to services: they are in fact included within non-ringfenced government grants credited to taxation and non-specific grant income. Officers demonstrated that this was a disclosure error and not double-counted in the CIES.
3 Disclosure	Various	PPE (Note 17), Heritage Assets (Note 20)	Disposals and transfers of assets to be shown separately to better reflect the substance of transactions.
4 Disclosure	2199	PPE (Note 17) and Capital Expenditure (Note 33)	Additions per note 33 have been updated to match the analysis of movements in Property, Plant and Equipment.
5 Disclosure	3019	Pensions (Note 34)	The disclosure of total contributions to the LGPS in the year ending 31 March 2015 has been updated in the statements.
6 Disclosure	Various	Segmental Reporting (Note 10)	The analysis in 2012/13 has been updated to reflect the naming convention in that year and to explain the change in reportable segments.
7 Disclosure	329	Trust Funds (note 28)	The valuation of Cobtree Golf course should be based on the relevant share of the asset held by the Fund, reducing its value by £329k.
8 Misclassification	539	Creditors (Note 26)	A £539k creditor to the HMRC was incorrectly disclosed in balances due to 'other entities and individuals' rather than to 'other government bodies'.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with officers' responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> As we reported in the Audit Plan, risks arise from the absence of a requirement for separate authentication for the Windows database and the Academy database. The following risks may occur: <ul style="list-style-type: none"> unauthorised access and changes to the database unintended changes to the database that could significantly impact its operation due to unskilled personnel The lack of logs of access mean users are not made accountable for their actions. 	<ul style="list-style-type: none"> Restrict access to the Academy database to authorised staff with the appropriate skills and knowledge. Provide each officer who is given authorised access to the database with a unique user ID so that any actions and changes made to the database are formally recorded in audit logs.
2.	●	<ul style="list-style-type: none"> We confirmed that the Council had been able to address the issues we identified in respect of balances relating to the Collection Fund that we reported in 2012/13. However, officers acknowledged that the process for reconciling cash between the ledger and council tax and business rates systems should be formalised. Although the variances are only £102k and £84k respectively, there is the risk of larger variances if this is not done as a matter of routine. 	<ul style="list-style-type: none"> Formalise the process of reconciling cash between the ledger and council tax and business rates systems.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee, with officers and with internal audit, who did not identify any incidents of fraud which would be material to our audit work on your financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidents of non-compliance with relevant laws and regulations from our discussions with officers and yourselves, or from work performed during our audit.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the valuation of Property, Plant and Equipment.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Management has agreed to make various changes to disclosure to improve the presentation of the statements, as outlined earlier in the report
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed. However, the Council needs to put in place a more systematic process for ensuring that elected Members confirm their declared interests (or that there are none to declare) on an annual basis for purposes of the accounts.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council continued to deliver good financial outcomes and had established adequate arrangements for financial planning, governance and control. We recommend that the Council looks at its current and planned levels of useable reserves in the context of managing financial risks.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has adequate arrangements in place to prioritise its resources and to improve efficiency and productivity. We note that the system for processing new planning applications in the Planning Shared Service is now functioning correctly and officers are working to clear the processing backlog

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements	Amber	Adequate arrangements, with areas for development	Red	Inadequate arrangements
--------------	-----------------------	--------------	---	------------	-------------------------

The table below summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	The Council has a good track record of managing its revenue budget and in 2013/14, delivered a net surplus, increasing the general fund by £2.48m. We note that useable reserve levels as a proportion of Gross Cost of Services for 2013/14 is at the low end of the spectrum at 15% compared to other similar councils averaging 28%. We also note that of the general fund reserves of £15.43m at 31 March 2014, a significant proportion was made up of carried forward budget surpluses where the approach is to recycle these into the following year's budget, rather than to build up reserves. Cash levels are robust and borrowing is minimal. The Council workforce targets are well managed, and sickness absence levels are on an improving trajectory.	Green
Strategic financial planning	The Council's Budget Strategy includes the medium-term financial strategy (MTFS), and projects a 5 year financial planning horizon up to 2019/20. The financial assumptions are based on a detailed assessment of inflation, income growth and demand for services. The budget strategy plans to reduce useable reserves to approximately £5m, which would make the Council an outlier with very low useable reserve levels, in comparison to similar councils. The Council should consider whether this will provide adequate financial resilience in future years. This issue has triggered an overall amber for this VfM theme.	Amber
Financial governance	The Council has established sound financial governance arrangements and members are provided with regular financial updates, including quarterly to the cabinet. Members are engaged in the financial planning process.	Green
Financial control	The Council has a strong recent track record on budgetary and financial control, demonstrated by good financial outcomes, which is indicative of a robust financial control framework. There were a number of localised issues raised by internal audit which the Council is addressing, but these were not significant in regard to the control framework as a whole in the annual Head of Internal Audit opinion. This view is supported by the findings of external audit.	Green
Prioritising resources	The Council has demonstrated a willingness to take on innovative and financially effective solutions to service delivery demonstrating a clear strategy and rationale for the use of its financial and other resources. Within the Council's General Fund, a balance of £500k has been set aside for invest to save projects. This is available to services to bid for funding to invest in developing more efficient ways of working, in addition to the carried forward budget surpluses.	Green
Improving efficiency & productivity	The Council understands its cost pressures and drivers, and has made use of cost bench-marking to support this. Core IT systems are adequate. The Council's Improvement Plan outlines a range of measures to develop efficiency in service delivery, including shared services and partnership working. Performance against service plan targets has been maintained. The Council is currently resolving some issues with the new shared planning service.	Green

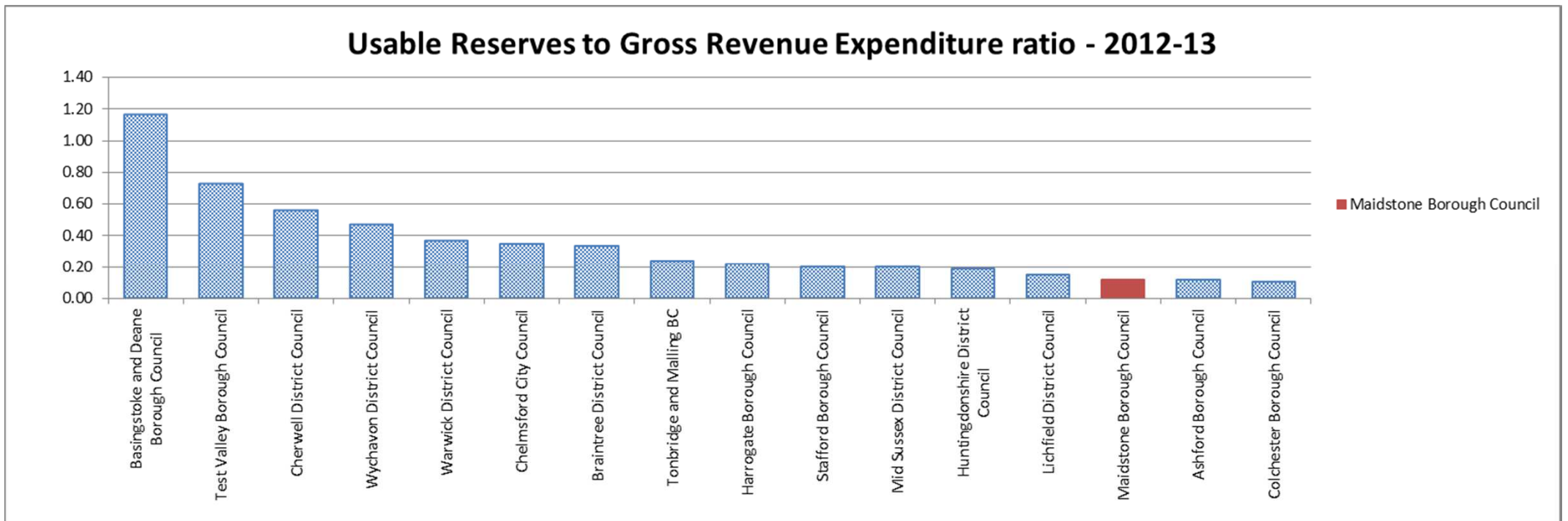
Within the main themes summarised above which were rated adequate overall, we noted a number of areas for development within the theme sub-categories. These do not pose a material risk to the VfM conclusion for 2013/14 but will need to be considered during 2014/15. It should be noted that we report by exception and that there were only 3 out of 32 sub categories rated as 'Amber' and none were rated as 'Red'. Where appropriate, we have made recommendations.

Residual risk identified	Summary findings	RAG rating
<p>Strategic Financial Planning <i>Responsiveness of the Medium Term Financial Strategy</i></p>	<p>We benchmarked the Council's reserve levels against that of other similar councils and noted that total useable reserve levels were at the low end of the spectrum.</p> <p>The Council's useable reserves represented 15% of the Gross Cost of Services in 2013/14 and 12% in 2012/13. For comparison, the average for the Audit Commission's 'nearest neighbours' benchmarking group was 28% in 2012/13. The definition of useable reserves used for this benchmarking is the total of General Fund, Earmarked Reserves and Useable Capital Receipts.</p> <p>The General Fund of £15.4m at year end 2013/14 includes significant accumulated revenue budget surpluses generated in prior years. The Council's current preferred approach is to recycle accumulated budget surplus balances back into the budget, rather than to build up reserves. This surplus budget is held centrally and made available for services to apply for, typically to fund improvement projects. In practice, the majority of this rolled forward budget surplus has not been spent which has temporarily inflated the General Fund to a significantly higher level than it would otherwise have been.</p> <p>Beyond the current reserve levels discussed above, the MTFS plans to reduce the accumulated carried forward surplus balances to zero over the 5 year financial planning horizon. Were this to be carried through, the Council's useable reserves would reduce to approximately 6% of the Gross Cost of Services by 2014/15 (based on an indicative Gross Cost of Services of £100m). This is likely to leave the Council with significantly lower reserves than other members of the benchmark group, even if the 2012/13 average level were to reduce in subsequent years.</p> <p>It should be noted that holding high levels of reserves is not necessarily the right course of action and a balance needs to be struck between protecting the Council from financial shocks and making sure that funding is used productively and to the benefit of local residents. We also note that the capital strategy has drawn on contributions from revenue to fund the capital programme which has enabled the Council to avoid the need for significant borrowing.</p> <p>In the light of the benchmarking information noted above, the Council should consider carefully whether a further reduction in useable reserves below the current level would provide sufficient financial resilience, in terms of the flexibility to fund projects and the ability to absorb financial shocks in future. Benchmarking of the reserve levels of other similar Councils would provide a useful contribution to this discussion.</p>	<p>Amber</p>

Residual risk identified	Summary findings	RAG rating
<p>Key Indicators of Performance <i>Reserves Balances</i></p>	<p>Whereas the General Fund is commonly kept relatively low by councils (£2.3m is not unreasonable in this context), the most striking difference with Maidstone is the lack of defined Earmarked Reserves, which most councils commonly establish to manage financial risk (such as cost pressures) and to fund specific planned investments and projects. The Council does have 'allocated' balances within the General Fund for specific purposes, but not to the total value seen elsewhere.</p> <p>The Council should consider whether allocated General Fund Balances and accumulated surpluses should be used to create Earmarked Reserves in order to provide greater clarity of definition between allocated and unallocated reserve funds and to improve financial resilience. They could then be managed as part of total useable reserves, rather than as part of the revenue budget, providing a short to medium term financial buffer, while still being available for use for their defined purpose. This approach is taken by the majority of local authorities.</p>	<p>Amber</p>
<p>Improving efficiency & productivity <i>Effectiveness of Key Services</i></p>	<p>The Council has recently launched a Shared Planning Service and there have been some early technical difficulties with the system for processing new applications. Residents have been contacted to inform them of the delays. We will monitor the resolution of these delays to the service in 2014/15. We note that the system for processing new planning applications is now functioning correctly and officers are working to clear the processing backlog.</p>	<p>Amber</p>

This chart presents the benchmarking data for Maidstone in regard to useable reserve levels against the Audit Commission's nearest neighbours set, based on 2012-13 data. This chart shows the ratio of useable reserves as a proportion of the Gross Cost of Services (referred to as Gross Revenue Expenditure in the chart). The data is provided by the Audit Commission and benchmarks against the 'Nearest Neighbours' benchmarking group.

The chart shows that in 2012/13 the ratio is at the low end of the range, but that the proposed reductions to reserves in the MTFs (from a ratio of 0.16 to approximately 0.05) would make the Council an outlier, with very low levels of useable reserves, in comparison to other similar Councils, even allowing for a reduction in the average ratio over the following years.



Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees (tbc) £
Council audit	66,400	*67,300
Grant certification	17,300	**15,224
Total audit fees	83,700	82,524

* There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for a district council and is subject to agreement by the Audit Commission.

** The Audit Commission updated its scale fee for certification work to reflect the removal of the need to test council tax benefit claims as part of work on Housing Benefits subsidy claim. Certification work is on-going and we will report the final fee to the Committee later in the year in our annual certification report.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you.

Ellie Dunnet, who was the in-charge accountant for the audit in 2012/13 and the initial stages of planning for 2013/14, has been appointed as Chief Accountant at the Council. We have considered the perceived threat to our independence and set out the safeguards we have put in place to manage this:

- All work performed was subject to review by the engagement manager and, on a sample basis, by the engagement lead. Her involvement with the audit ceased when she informed the engagement lead of her interview for the post.
- There is a potential threat of intimidation of junior staff on the audit who have worked with her previously. This is mitigated by selecting staff who have not previously worked with her and review of areas of critical judgement by the engagement manager and engagement lead.
- The current engagement manager and team proposed for the 2013/14 audit did not work on the audit in 2012/13 and there is therefore a low risk of familiarity threat. This is mitigated further by selecting appropriate staff on the audit and review of areas of critical judgement by the engagement manager and engagement lead.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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.

	Audit Plan	Audit Findings
Our communication plan		
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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Restrict access to the Academy database to authorised staff with the appropriate skills and knowledge.</p> <p>Provide each officer who is given authorised access to the database with a unique user ID so that any actions and changes made to the database are formally recorded in audit logs.</p>	Medium		
2	Formalise the process of reconciling cash between the ledger and council tax and business rates systems.	Medium		
3	<p>In the light of the benchmarking information noted above, the Council should consider carefully whether a further reduction in useable reserves below the current level would provide sufficient financial resilience, in terms of the flexibility to fund projects and the ability to absorb financial shocks in future. Benchmarking of the reserve levels of other similar Councils would provide useful contribution to this discussion.</p>	High		
4	The Council should consider whether allocated General Fund Balances and accumulated surpluses should be used to create Earmarked Reserves in order to provide greater clarity of definition between allocated and unallocated reserve funds and to improve financial resilience.	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Maidstone Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Maidstone Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Regeneration & Communities and auditor

As explained more fully in the Statement of the Director of Regeneration & Communities' Responsibilities, the Director of Regeneration & Communities is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Regeneration & Communities; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Maidstone Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources***Respective responsibilities of the Authority and the auditor***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Maidstone Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Maidstone Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Darren Wells
Director, for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Fleming Way
Manor Royal
Crawley
RH10 9GT

XX September 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk