



The Audit Findings Report for Maidstone Borough Council

Year ended 31 March 2017

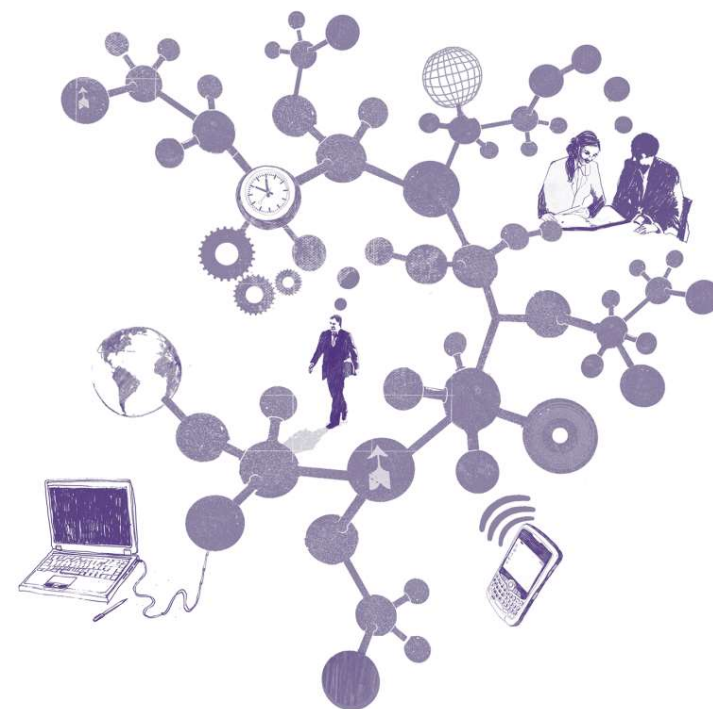
18 September 2017

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18 September 2017

Dear Members of the Audit, Governance and Standards Committee

Audit Findings for Maidstone Borough Council for the year ending 31 March 2017

This Audit Findings Report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Maidstone Borough Council, the Audit, Governance and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Darren Wells

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

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Purpose of this report

This report highlights the key issues affecting the results of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 20 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- our final internal reviews
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £22,805k, which is the same as disclosed in the audited financial statements. We have recommended a number of adjustments to improve the presentation of the financial statements (details are recorded in section two of this report).

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

- The draft statements presented for audit were of a good standard and only a handful of amendments were identified from the audit work performed;
- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. The Council responded promptly to the queries raised during the course of the audit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

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.

Findings

We draw your attention in particular to the control issue identified in relation to:

- Timely and accurate updating of the Property, Plant and Equipment Register.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee in early 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Business Improvement.

We have made one recommendation which is set out in the action plan at Appendix A. This recommendation has been discussed and agreed with the Director of Finance and Business Improvement and the finance team.

Acknowledgement

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 2017

Section 2: Audit findings

01. Executive summary

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05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,787k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and chose to revise our overall materiality based on the gross revenue expenditure in this year's draft accounts. The revised overall materiality is £1,813k (being 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £90,650. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we determined that cash warranted a lower level of materiality due to its sensitive nature and set materiality for this area at £500k.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we 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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 ISA240 and the nature of the revenue streams at Maidstone Borough Council, 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 Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Maidstone Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>We have considered this risk and did not consider it to require additional audit procedures because, based on your 2015/16 actual expenditure:</p> <ul style="list-style-type: none"> • 58% relates to housing benefit expenditure, on which we have performed detailed testing for the purpose of our Accounts opinion, and will perform additional testing for our certification of the Council's housing benefit subsidy claim, which takes place later in the year. • The other main areas of expenditure are covered by the risks raised in respect of Operating Expenditure and Employee Remuneration, which can be seen on the following page of this Report. 	<p>Our audit work has not identified any issues in respect of fraudulent transactions in expenditure.</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&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we 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
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Summary of work performed:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management; • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify, nor have been made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; performed substantive testing of operating expenditure across the year; testing of creditor payments, including accruals, for completeness, classification and occurrence; review of control account reconciliations; cut-off testing of expenditure incurred either side of year end; reviewed the allocation of apportioning expenses in the Comprehensive Income and Expenditure Statement (CIES) in line with the changes made as part of the CIPFA Telling the Story presentation changes. 	<p>Our audit work has not identified any significant issues in respect of the risk identified.</p>
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; reviewed the reconciliation between the payroll system and the general ledger at year end; substantive testing of employee remuneration expenses across the year; performed a trend analysis of employee remuneration expenses across the year and undertake follow up procedures on any unexpected movements or variances identified. 	<p>Our audit work has not identified any significant issues in respect of the risk identified.</p>



"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&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of pension fund net liability</p>	<p>The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary; • We wrote to the auditor of the Kent Superannuation Fund to gain assurance over the data provided to the Actuary by the Fund on behalf of the Council to enable them to come up with a reasonable estimate for inclusion within the Council's Accounts. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

Accounting policies, estimates and 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
Revenue recognition	The Council's revenue recognition policy is disclosed within Note 1b of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code. Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.	 Green
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> • Useful life of capital equipment • Pension fund valuations and settlements • Impairments • PPE revaluations • Depreciation • Bad debt provisions • Business rate appeals 	Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements. Our work on this area identified that no disclosure had been made as to why the Cobtree Estate Trust had not been consolidated into the Council's Accounts. Narrative explaining the rationale for this decision has now been included within the revised Accounts. We concur with management's judgement. We have reviewed your Business Rate Appeals provision, along with the calculation of depreciation in respect of Council Dwellings, and are satisfied with the approaches taken in each of these areas. Work has also been performed on the Council's Property, Plant and Equipment revaluations, which we have found to be based on reasonable and appropriate assumptions and the correct base data. Based on our work, we concur with management's judgements in this area.	 Amber

Assessment

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

● - **Amber** - Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - changes to the presentation of local authority financial statements	The Council restated of the prior year Comprehensive Income and Expenditure Statement to take account of the changes arising from the CIPFA 'Telling the Story' Review. This has been clearly disclosed within the Narrative Report, and the required disclosures and notes have been included within the Accounts.	Based on the work performed, we are satisfied with the approach taken by the Council in respect of the Telling the Story Review and this is clearly shown within the Accounts.	 Green
Going concern	The Director of Finance and Business Improvement, who is the Council's s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

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


● - Amber - Accounting policy appropriate but scope for improved disclosure

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit, Governance and Standards Committee papers for this meeting.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. <p>Whilst we have not identified any issues we would be required to report by exception in these areas, we have highlighted a couple of improvement points for the Council to take forward to next year's Annual Governance Statement.</p>
8.	Specified procedures for Whole of Government Accounts	<p>The NAO require auditors to carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work has not been required as the Council did not exceed the £350m threshold across any of the criteria set out by the National Audit Office.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
1.	 <p>Amber</p>	<p>Timely and accurate updating of the Property, Plant and Equipment Register</p> <p>During the course of our work on the Council’s Property, Plant and Equipment (PPE) we identified a couple of issues relating to the PPE Register. These were:</p> <ul style="list-style-type: none"> the Council had disposed of some assets during 2015-16 but these were only removed from the PPE Register during the course of 2016-17, requiring an amendment to the opening balances against those disclosed in the previous year. an asset owned by the Council was not included within the PPE Register. However we are comfortable this issue is isolated based on the testing performed. <p>The Council needs to ensure that the asset register is updated in a timely and accurate manner to show an accurate position of the Council’s PPE Assets at any given point in time, in particular ensuring it is accurate ahead of the accounts preparation.</p>	<p>Update the PPE Register in a timely and accurate manner to ensure it reflects the Council’s current position during the course of the year and at the year end.</p>

Assessment

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

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 3 - Critical Judgements	The draft accounts did not provide any narrative around the Council's judgement for not consolidating the Cobtree Estate Trust into the Council's accounts. This has been added subsequently in the final accounts.
2 Disclosure	243	Note 18 – Property, Plant and Equipment	We identified that the split of the revaluation increases recognised in the Revaluation Reserves was incorrect in the draft note. This has been updated in the revised accounts.
3 Disclosure	Various	Note 32 – Defined Benefit Pension Schemes	Our testing identified that the disclosures initially included within the Scheme History table of the note did not agree with the Actuary's Report. The table has been amended in the revised accounts.
4 Disclosure	Various	Note 33 – Leases	The draft accounts did not provide a reconciliation between the Minimum Lease Payments and the Liability on the Balance Sheet. The Council has now provided this disclosure in the revised accounts.
5 Disclosure	Various	Note 35 and 36 – Cash Flow Statement Notes	We identified that several of the movements supporting the Cash Flow Statement were incorrect. These amendments had no overall impact on the Council's Cash position at year end. The notes have been amended in the revised accounts.
6 Disclosure	Various	Narrative Report Accounting Policies Collection Fund Note 1	Various minor disclosure amendments were made to improve the transparency of the disclosures in the accounts.

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified one significant risk in respect of a specific area of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 20 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risk that we identified in the Council's arrangements.

We have set out more detail on the risk we identified, the results of the work performed and the conclusions we drew from this work on the following page.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial Position On its current trajectory, the Council is behind on its planned in-year General Fund position, largely due to the costs of providing temporary housing to those who have been made homeless. An action plan has been put in place to manage this overspend during the course of 2016-17 to return the position to balance by year end.</p> <p>The longer term picture also looks challenging due to the likely continuation of pressures on temporary accommodation, the cessation of the Revenue Support Grant, along with changes to other areas such as Business Rates Retention. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> • reviewed the progress against the 2017-18 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date. 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> • The Council delivered a £89k underspend against its General Fund Budget in 2016-17, despite having to deal with considerable overspends caused by the increased demand for temporary accommodation from people who became homeless during the course of the year. This area is a ongoing challenge in 2017-18, and the Council is continuing with its plan of purchasing properties to redevelop to provide its own source of accommodation to reduce the financial burden of the continued increase in homelessness cases in the Borough. • The Council has set a balanced budget for 2017-18, which includes £1,819k of savings and/or additional income generation schemes, which were identified in full by the Council before the financial year started. Of the £1,819k, £772k comes from income generation schemes, £684k efficiencies, £170k from transformation programmes, and the remainder from service reductions. This shows that the Council is continuing to take a balance approach to managing budget gaps, generating savings against additional sources of income. This will continue to be important as most of the obvious savings have now been utilised and different approaches will be needed to fill future budget gaps. • Over the life of the 2017 to 2022 Medium Term Financial Plan (MTFP), the Council has identified £3.4m of the £4.2m savings it estimates are required, which puts the Council in a strong position. However very little has been identified post-2020, which is largely due to the level of uncertainty over what Local Government funding is going to look like post-2020, when the new funding settlement is going to be implemented. To date the Council has taken a prudent approach to forecasting for this period, including expected additional costs and income in the MTFP to provide what it hopes will be a realistic assessment of the potential budget gap over this period. • During the course of updating the MTFP for the period covering 2018-2023, three scenarios (favourable, neutral and adverse) have been shared to highlight the range of potential savings/additional income which may be needed over this period. The worse case scenario could lead to the Council needing to identify a further £7,702k of savings/income over the next five year cycle, which would prove a real challenge given this equates to 22% of the total resources available to the Council. • At this present time, the Council is working to the 'neutral' position which estimates a budget gap of £2,111k over the medium term planning period. The Council has a good track record of delivering its plans over recent years and its arrangements for the medium term means it is well placed to deal with the challenges ahead, which are going to impact all councils over the next couple of 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

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

Fees

	Proposed fee £	Final fee £
Council audit	50,475	50,475
Grant certification	10,433	TBC
Total audit fees (excluding VAT)	60,908	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services:	
• Investing in People Programme	16,000

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been put in place.

	Service provided to Maidstone Borough Council	Fees (£)	Threat?	Safeguard
Audit related services	N/A	N/A		
Non-audit services	Investing in People Programme	16,000	Yes	This piece of work was performed by a separate department within Grant Thornton, who have had no involvement in the external audit, or any communication with members of the audit team during the course of the year. Therefore we are satisfied sufficient safeguards were put in place in respect of this piece of work.
	TOTAL	16,000		

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

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 to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

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	✓	
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

Appendix A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	Timely and accurate updating of the PPE Register Update the PPE Register in a timely and accurate manner to ensure it reflects the Council's current position during the course of the year and at the year end.	Medium	Officers accept this recommendation and will ensure that appropriate checks are introduced to ensure that the information held within the Property, Plant and Equipment Register remains accurate and up to date.	Immediately

Controls

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

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

We have audited the financial statements of Maidstone Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the CashFlow 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Finance and Business Improvement and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Business Improvement 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Finance and Business Improvement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or

Appendix B: Audit opinion (continued)

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

- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2nd Floor
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RH10 1HS

xx September 2017



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