AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 14 November 2022
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett (Chairman), Bryant, Coulling (Parish Representative), Cox (Vice-Chairman), Forecast, Jeffery, Khadka, Knatchbull, Titchener (Parish Representative), Trzebinski and D Wilkinson

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

AMENDED AGENDA Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Urgent Items
4. Notification of Visiting Members
5. Disclosures by Members and Officers
6. Disclosures of Lobbying
7. To consider whether any items should be taken in private because of the possible disclosure of exempt information
8. Minutes of the meeting held on 27 September 2022
9. Question and Answer Session for Local Residents (if any)
10. Questions from Members to the Chairman (if any)
11. Committee Work Programme 2022/23
12. Information Governance Report – Annual Report
13. Internal Audit Interim Report 2022-23

Issued on Monday 14 November 2022 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE
Borough Council

14. Progress Report on External Audit **76 - 145**

Audit Findings Report 2020-21
External Auditor's Annual Report 2020-21

15. Budget Strategy - Risk Assessment Update

INFORMATION FOR THE PUBLIC

In order to ask a question at this meeting, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 11 November 2022). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 11 November 2022). You will need to tell us which agenda item you wish to speak on.

If you require this information in an alternative format please contact us, call **01622 602899** or email **committee@maidstone.gov.uk**.

To find out more about the work of the Committee, please visit www.maidstone.gov.uk.

The Audit Findings for Maidstone Borough Council

Year ended 31 March 2021

Maidstone Borough Council

November 2021

Updated version November 2022 – updates to the November 2021 version in **bold**

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Governance and Standards Committee.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 14 November 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and 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 the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been completed remotely in the period August –November 2022. Our findings are summarised at Section 2.

We considered the appropriate accounting treatment for construction costs relating to the Brunswick Street and Union Street housing developments. We agreed with management that the costs of assets being constructed for disposal should be re-classified from PPE assets under construction to inventory. This change in accounting treatment also gives rise to a prior period adjustment in the financial statements. However, we concluded that under statutory provisions these costs could continue to be financed through capital resources. Although this change involves a material change to classification our understanding is that the impact of valuing assets as inventory rather than assets under construction will not be material, and that the adjustments will have no impact on the General Fund balance. We have raised a number of technical issues for management to consider in making the agreed classification amendments.

We agreed a number of further changes relating to the accounting entries for the Brunswick Street and Union Street housing developments. The original accounting entries relating to the disposal of units to MHS homes took the year of disposal to be 2019/20. However, it was agreed that income should not have been recognised until the year in which the completed sites were transferred i.e. 2020/21 for Brunswick St. and 2021/22 for Union St. The Council had also accounted for capital receipts, and then used these receipts to fund capital expenditure, based on the original disposal dates; as a result amendments to capital financing transactions were also required. Both of these issues required prior period adjustments in addition to amendments in 2020/21. Details of the relevant amendments are included at Appendix C.

The final value of assets reclassified from PPE to inventory was £9,075,000.

Our work to date has not identified any other material adjustments to the financial statements and there is only one unadjusted misstatements.

We have agreed amendments to address the following issues;

- **balances of £12,192,000 previously classified as PPE assets under construction should have been disclosed as Investment Property assets under construction. This issue also required a prior period adjustment.**

1. Headlines

Financial statements (continued)

- the whole of the £7,817,000 balance for capital grants received in advance was shown as a current liability, but £3,880,000 should have been disclosed as a long term liability.
- a bank overdrawn balance of £3,380,000 was netted off with other cash balances at "Cash and cash equivalents" but should have been disclosed separately under current liabilities.

Unadjusted misstatements

Our work on investment properties identified one asset where the value had been understated by £211,000 due to an error in the valuation calculations by the Council's external valuer. As the impact of the error was not material management decided not to adjust the accounts.

Calculation of the Council's capital financing requirement

The financial statements include a disclosure note which calculates the authority's closing capital financing requirement. In addition to the methodology used in the disclosure note it should also be possible to construct this figure directly from the Council's balance sheet.

Performance of this "balance sheet check" using the 2020/21 accounts identified a material difference with the closing capital financing requirement per the disclosure note.

Significant additional work was required by management to resolve this issue. The difference related mainly to an arrangement with the operator of Maidstone Leisure Centre dating from 2009/10, where the relevant transactions had not been properly reflected in the annual calculation of the capital financing requirement. A number of other amendments to the calculation were also required. The aggregate impact was to increase the previously stated capital financing requirement at 31 March 2020 by £1,317,000 and to reduce the capital financing requirement at 31 March 2021 by £847,000. The accounts have been amended.

Prior period adjustments

A new disclosure note (Note 3) has been included in the financial statements to explain the prior period adjustments required to the accounts and to disclose the movement between the original and restated figures. A separate disclosure note on the prior period adjustments required in respect of the calculation of the capital financing requirement has been included at Note 32.

1. Headlines

Financial statements (continued)

Overall summary

- Our work is substantially complete. Our remaining work includes;
- completion of testing for PPE revaluations, where there have been some delays in obtaining information from the Council's external valuer;
- completion of creditors and debtors testing;
- completion of audit review and quality control procedures;
- review of a final set of the financial statements; and
- obtaining a management letter of representation.

Our work on the 2020/21 audit is now complete other than for;

- **completion of closing reporting processes.**

Recommendations for management as a result of our audit work are included at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B. Audit adjustments are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council and the financial statements we have audited.

Subject to the completion of outstanding work we anticipate issuing an unmodified audit report.

We intend to issue an unmodified audit report.

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1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

At this stage there are no significant weaknesses in the Council's arrangements which we need to bring to your attention.

We have now completed our VFM work.

Under the NAO framework we are required to report on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, considered under three specified criteria – financial sustainability, governance and improving economy, efficiency and effectiveness. As part of our work we are also required to consider if there are any significant weaknesses in the Council's arrangements.

We have reported the detailed findings from our VFM work in our Auditor's Annual Report. We did not identify any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. However, we have made a number of recommendations for improvement.

A summary of the work performed and our conclusions for each of the specified criteria is included at Section 3.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report.

Our VFM work is now complete. We intend to certify the closure of the 2020/21 audit when we give our opinion on the financial statements.

Significant Matters

In our report to the Audit, Governance and Standards Committee in March 2022 we reported a delay in completion to the audit due to both a lack of audit resources and some significant technical issues. The audit testing of detail was completed in April 2022. Our time since then has been spent resolving some significant and material technical issues with the Council that have required extensive extra resources and has led to the material adjustments to the accounts described earlier. We have been required to review several versions of the accounts and associated notes where relevant. We have carried out an early targeted technical review of the 2021/22 accounts which should mean that the 2021/22 audit runs more smoothly.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Governance and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements. Subject to the completion of outstanding work we anticipate issuing an unmodified audit report.

Our audit work is now complete. We intend to issue an unmodified audit report.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

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In our audit plan we reported a materiality level of £1,700,000. Based on the total expenditure reported in the draft financial statements we updated our materiality to £1.,800,000.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,800,000	This is approximately 2% of gross revenue expenditure.
Performance materiality	1,350,000	Calculated as 75% of headline materiality. This is a measure used in audit testing based upon our assessment of the likelihood of a material misstatement in the financial statements.
Trivial matters	45,000	This is 2.5% of materiality as agreed with the Audit, Governance and Standards Committee.
Materiality for disclosures relating to officer's remuneration and related parties	50,000	Additional inherent sensitivity around such disclosures.

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in our March 2021 Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control as an area of significant risk. The related areas of risk include management estimates, use of journals and any significant transactions outside the Council's normal course of business.	To address this risk we; • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • -gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. Our audit work to date has not identified any other issues in respect of this risk. **Our completed work has not identified any issues in respect of this risk.**
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • 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 mean that all forms of fraud are seen as unacceptable. Our audit work has not identified any issues to change our strategy towards revenue recognition.
Fraud in expenditure recognition As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	To address this risk we; • inspected transactions around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigated post yearend and manual journals as part of our journal testing procedures and considered if there was evidence of fraud in expenditure recognition. Our audit work to review creditors and accruals is still in progress. Our work to date has not identified any issues in respect of this risk. **Our completed work has not identified any issues in respect of this risk.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five year cycle, with major assets revalued annually. This valuation represents a significant estimate by management in the financial statements due to the values involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified the valuation of land and buildings as a significant risk.	To address this risk we; • evaluated management's processes and assumptions for the calculation of the estimate, including the instructions issued to the Council's external valuer and the scope of their work; • evaluated the competence, capabilities and objectivity of the external valuer, and challenged the information and assumptions used by the valuer; • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Council's asset register; and • evaluated how management concluded that the carrying value of assets not revalued was not materially misstated. Our work in this area is still in progress. The outstanding work includes testing a sample of 2020/21 revaluation movements where we will require additional information from the Council's external valuer. By agreement with management we liaise with the valuer directly but to date there have been delays in obtaining responses to queries. Management have now contacted the valuer to request that responses are provided promptly. *Brunswick Street and Union Street housing developments: Accounting treatment of transactions* Brunswick Street (Tower Hill Court) and Union Street (Tylers Place) are housing development projects constructed on the sites of former Council car parks. The objective of the projects has been to provide; -28 units of affordable housing, transferred to MHS Homes on completion -26 properties for disposal by private sale -40 flats to be retained by the Council and leased to the Council's subsidiary company, Maidstone Property Holdings Ltd. Work on the schemes commenced in 2018/19. Work on the 28 properties for transfer to MHS homes and the 26 properties for private sale was completed in 2020/21. Work on the remaining properties has been completed in 2021/22. In the financial statements for earlier years and the draft financial statements for 2020/21 the Council has classified the costs associated with these schemes as PPE assets under construction. On completion in 2020/21 the properties have then transferred to assets held for sale prior to disposal. We considered the appropriate accounting treatment for these transactions, having regard to accounting standards, the CIPFA Code of Practice on local authority accounting and the accompanying Code guidance notes. We concluded that, where assets are constructed with the intention of disposal rather than to provide ongoing service potential for the Council, then the costs associated with these assets are more appropriately disclosed as inventory rather than PPE assets under construction. This change in classification also involves changes to the accounting treatment on completion and disposal of the assets. The issue is relevant to those assets completed in 2020/21 and either transferred to MHIS Homes or subject to disposal by private sale. As the amounts involved were material we agreed with management that the accounts would be amended to reflect these changes. The change in accounting treatment also gives rise to a prior period adjustment in the financial statements. Although this change involves a material change to classification, our understanding is that the impact of valuing assets as inventory rather than assets under construction will not be material, and that the adjustments will have no impact on the General Fund balance. We have raised a number of technical issues for management to consider in making the agreed classification amendments. These assets had previously been financed through the use of capital resources. We considered the appropriate accounting treatment given the change in classification. We concluded that under statutory provisions the costs could continue to be financed through capital resources.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council re-values its land and buildings on a rolling five year cycle, with major assets revalued annually. This valuation represents a significant estimate by management in the financial statements due to the values involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified the valuation of land and buildings as a significant risk.	We noted that the original accounting entries relating to the disposal of units to MHS homes took the year of disposal to be 2019/20. This was the year in which the land used for the project was transferred from the Council to the company. However, income is normally recognised when the performance obligation specified in a contract is satisfied, and typically this involves control of the asset transferring. It was agreed that control of the asset had not transferred prior to the completion of construction work and the transfer of the sites to MHS, and therefore that income should not have been recognised until the year in which the completed sites were transferred i.e. 2020/21 for Brunswick St. and 2021/22 for Union St. Management had also accounted for capital receipts, and then used these receipts to fund capital expenditure, based on the original disposal dates. It was agreed that the relevant capital financing transactions would also need to be amended to reflect the changes to the date when income was first recognised. The final value of assets reclassified from PPE to inventory was £9,075,000. The accounts have been amended. Details of the relevant amendments are included at Appendix C. A number of prior period adjustments have also been required. A new disclosure note (Note 3) has been included in the financial statements to explain these adjustments and analyse the movements between the original and restated figures.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the values involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation, and have identified valuation of the Council's pension fund net liability as a significant risk.	To address this risk we : • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated, and evaluated the design of the associated controls; • evaluated the instructions issued by management to the actuary as management's expert, and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary; • assessed the accuracy and completeness of the information provided by the Council to the actuary; • tested the consistency of the pension fund disclosures in the financial statements with the actuary's report; • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuations – **Land and Buildings: £124,418,000** **Investment property: £25,697,000** **Assets Held for Sale: £5,655,000**	Other land and buildings comprise specialised assets such as the leisure centre and theatre which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Land and buildings which are not specialised in nature are required to be valued at existing use in value (EUV) at year end. The Council has engaged Harrisons Chartered Surveyors to complete the valuation of properties as at 31 March 2021. Management have also considered if there has been a material change in carrying value for properties not revalued during the year. Management have concluded that there has been no material change in value for these properties during 2020/21. *Brunswick Street and Union Street housing developments: Accounting treatment of transactions* For our conclusions on the accounting treatment of the transactions relating to the Brunswick Street and Union Street housing developments see section "Financial statements – Significant risks". *Investment property: Asset value understated* Our work on investment properties identified one asset (Parkwood industrial estate plot 12 – Integra starter units) where the value had been understated by £211,000 due to an error in the valuation calculations by the Council's external valuer. As the impact of the error was not material management decided not to adjust the accounts.	Work to complete our testing of PPE revaluations is still in progress. Our work to date has not identified any issues relating to the estimates or judgements made by management. Following a review of the accounting for transactions relating to the Brunswick St. and Union St. housing developments we agreed that assets totalling £9,075,000 should be reclassified from PPE to inventory. The accounts have been amended. We identified that the valuation for one investment property had been understated by £211,000. The accounts have not been amended. We agreed that balances of £12,192,000 classified as PPE assets under construction should have been disclosed as Investment Property assets under construction. The accounts have been amended.	**Light purple**

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
	The issue is not material for our opinion. However, the amount involved is above the threshold where, if management decide not to adjust the accounts, we ask Those Charged With Governance to approve management's proposed treatment. Further details are included at Appendix C. *Misclassification of Assets Under Construction* Where assets under construction relate to investment properties then these should be disclosed under the balance for "Investment Property". All assets under construction had been shown under "PPE". However, it was agreed that balances for assets under construction totalling £12,192,000 should have been classified as "Investment Property". The accounts have been amended. A prior period adjustment was also required. *Calculation of the Council's capital financing requirement* The financial statements include a disclosure note which calculates the authority's closing capital financing requirement. In addition to the methodology used in the disclosure note it should also be possible to construct this figure directly from the Authority's balance sheet Under the CIPFA "Prudential Code for Capital Finance in Local Authorities" authorities should confirm each year that the closing capital financing requirement agrees to the aggregate of the relevant balances in the financial statements.	The Council's closing capital financing requirement had not been calculated correctly. The balance at 31.3.2021 had been understated by £847,000. The accounts have been amended. Our work did not identify any other issues relating to the estimates or judgements made by management	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
	Performance of this "balance sheet check" using the 2020/21 accounts identified a material difference with the closing capital financing requirement per the disclosure note. Significant additional work was required by management to resolve this issue. The difference related mainly to an arrangement with the operator of Maidstone Leisure Centre dating from 2009/10, where the relevant transactions had not been properly reflected in the annual calculation of the capital financing requirement. Amendments were also required relating to take into account the Brunswick St./Union St accounting adjustments and to include the council's minimum revenue provision in the calculation. The aggregate impact was to increase the previously stated capital financing requirement at 31 March 2020 by £1,317,000 and to reduce the capital financing requirement at 31 March 2021 by £847,000. The accounts have been amended. *Valuation of heritage assets* The financial statements include a balance of £10,393,000 for heritage assets. Of this balance £9,090,000 represents the value of a number of museum exhibits which were last formally valued on 1 April 2011. The CIPFA Code states that "where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current". Given the last valuation was in 2011 it is unclear how far the valuation used in the 2020/21 financial statements remains current. Management have advised that they do not consider a large scale valuation exercise o be an effective use of staffing or financial resources. However, we understand an exercise to value the museum exhibits is currently in progress but that this may take several years to complete as it is being performed by museum staff.		Grey (Heritage assets)

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
	We note that the Term "sufficient regularity" is not defined by the Code, and that the code does not prescribe a minimum period for the revaluation of heritage assets. However, we recommend that management should perform sufficient work to satisfy themselves that the valuation for the museum exhibits included in the financial statements remains current and therefore complies with the requirements of the CIPFA Code. . This may also be relevant for insurance purposes.		Grey (Heritage assets)

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £89,783,000	At 31 March 2021 the Council had a net pension liability of £89,783,000 relating to the Local Government Pension Scheme as administered by Kent County Council. The Council uses an external actuary, Barnett Waddingham, to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years. The latest full actuarial valuation for the LGPS was completed in 2018/19. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.	We engage an auditor's actuary to assess the work of management's actuary and the reasonableness of the approach used. The auditor's actuary has provided us with indicative ranges for assumptions which we report below. The values used by management's actuary are consistent with the ranges specified by the auditor's expert.	Light purple

Assumption	Actuary Value	PwC range	Within range?
Discount rate	2.0%	1.95 - 2.05%	✓
Pension increase rate	2.85%	2.85 - 2.80%	✓
Salary growth	3.80%	CPI + 1%	✓
Life expectancy – Males currently aged 45 aged 65	 22.9 21.6	 21.9 - 24.4 20.5 – 23.1	✓
Life expectancy – Females currently aged 45 aged 65	 25.1 23.6	 24.8 - 26.4 23.3 – 25.0	✓

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management. We have not been made aware of any significant incidents in the period. No other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We seek external confirmations from relevant banks and financial institutions to support our review of the Council's yearend cash and investment balances. For one balance we were unable to access the relevant information using the confirmation procedures advised by the bank. For this balance we used alternative procedures to obtain the assurance required for our opinion purposes. We received positive confirmation for all other balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

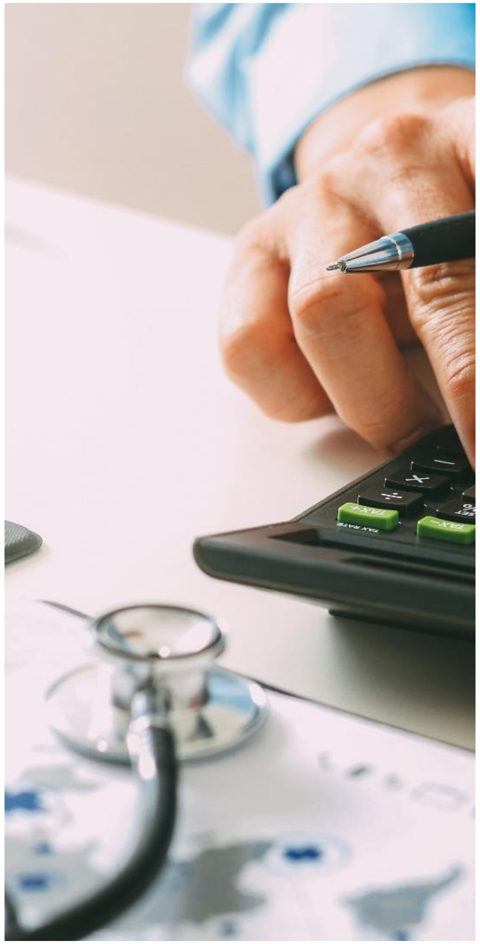
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies. Subject to the completion of all outstanding work we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Subject to confirmation in the group audit instructions for 2020/21 we anticipate the Council will not exceed the thresholds specified by NAO and that detailed work will not be required. **We have now confirmed that the Council does not exceed the specified threshold for 2020/21. As such no detailed work will be required.**
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit, as detailed in our audit report, as our VFM work is not yet complete. **Our VFM work is now complete. We intend to certify the closure of the 2020/21 audit when we give our opinion on the financial statements.**



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020 the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have completed our VFM work.

Under the NAO framework we are required to report on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, considered under three specified criteria – financial sustainability, governance and improving economy, efficiency and effectiveness. As part of our work we are also required to consider if there are any significant weaknesses in the Council's arrangements.

We will report the detailed findings from our VFM work in our Auditor's Annual Report. We did not identify any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. However, we have made a number of recommendations for improvement. A summary of the work performed and our conclusions for each of the specified criteria is included below.

Specified criteria	Procedures undertaken	Conclusion
Financial sustainability	We considered how the Council: • identifies all the significant financial pressures it is facing and builds these into its plans • plans to bridge its funding gaps and identify achievable savings • plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning • identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.	The Council is operating in an increasingly uncertain financial environment. For the second successive year the Comprehensive Spending Review was a single year spending review. Maidstone, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term. Despite this uncertainty and the challenges posed by COVID-19 the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a surplus of £1.2m. Overall the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have made some improvement recommendations including the production of a workforce plan.

3. VFM - our procedures and conclusions

Specified criteria	Procedures undertaken	Conclusion
Governance	We considered how the Council: • monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud • approaches and carries out its annual budget setting process • ensures effectiveness processes and systems are in place to ensure budgetary control • ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency • monitors and ensures appropriate standards.	Overall we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified some improvement recommendations around risk management.
Improving economy, efficiency and effectiveness 98	We considered how the Council: • uses financial and performance information to assess performance to identify areas for improvement • evaluates the services it provides to assess performance and identify areas for improvement • ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve • ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits	The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in is use of resources. Overall we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have made some improvement recommendations around performance management and procurement.

4. 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim		Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £22,000 in comparison to the total fee for the audit of £61866 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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.

Assessment	Issue and risk	Recommendations
	The statutory accounting requirements per the CIPFA code include the use of a Capital Grants Unapplied Account. Currently the Council does not include a Capital Grants Unapplied Account in its financial statements. We confirmed that the transactions which would meet the criteria to be included in this account were not material in 2020/21.. We agreed that management would include additional narrative at Note 15 to clarify the position.	We recommend that the value of transactions meeting the criteria to be accounted for as capital grants unapplied is assessed as part of closedown procedures in future years, Where transactions meeting the criteria are identified then these should be processed through a capital grants unapplied account. **Management response** The finance team has assessed capital transactions to identify receipts which should be classified as capital grants unapplied and identified that the balance on this account for 2020/21 was £nil. We will continue to undertake this assessment in future years as recommended.
	Management presented its draft financial statements to the 28 July 2021 Audit Governance and Standards Committee. The financial statements were therefore published with the agenda papers for that meeting on 20 July 2021. Under the Accounts and Audit Regulations 2015 the public have the right to inspect or ask questions about the accounts. Th public inspection period for the 2020/21 accounts was effectively triggered by publication and advertised on the Council's website as commencing on 21 July 2021.. In practice further work was required to finalise the accounting entries in respect of property, plant and equipment. A revised version of accounts with material changes relating to these disclosures was published on 29 July 2021. The advertised period of inspection on the Council's website was amended to run from 30 July 2021 . This updated period of inspection ran for the full period required by regulations.	It is recognised that, in circumstances where further work was required to finalise the accounts subsequent to initial publication, it was appropriate to publish a revised set of accounts. However, changes to the dates of the inspection period or to the content of the published accounts may cause confusion for the public. We recommend that the Council reviews its closedown timetable for 2021/22 to minimise the risk that the financial statements will need be re-published. Management response We will continue to strive to ensure that the financial statements are free from error at the point of publication. Where amendments are identified or further information comes to light subsequent to publication, we will update the accounts and extend the inspection period accordingly, as has been done this year.

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Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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.

Assessment	Issue and risk	Recommendations
103	The financial statements include a balance of £10,393,000 for heritage assets. Of this balance £9,090,000 represents the value of museum exhibits which were last formally valued on 1 April 2011. The CIPFA Code states that "where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current". Given that the last valuation was in 2011 it is unclear how far the valuation used in the 2020/21 financial statements remains current.	We recommend that management should perform sufficient work to satisfy themselves that the valuation for the museum exhibits included in the financial statements remains current. This may also be relevant for insurance purposes. **Management response** Based on the information we have we are satisfied that the current valuation is sufficient for the purposes of the statement. A full formal valuation would be a time consuming and expensive exercise and would not represent good value for money for Council Tax payers.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified one issue in the audit of the Council's 2019/20 financial statements which led to a recommendation in our 2019/20 Audit Findings report. The recommendation has now been implemented by management.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Declarations of interest** During our testing of related party disclosures we requested the latest declarations for review. The Council sends these to members on an annual basis and they were sent on 9 April 2020. At the time of the audit work in July 17 forms had not been received from members. We recommend that the process for managing the distribution and collections of returns is reviewed and the importance of responding is reiterated with members. Management response We accept this recommendation and will be reviewing our processes to ensure that declarations of interest are collected promptly in future.	The Council has again sought declarations from all members and senior officers as part of yearend procedures for 2020/21. We noted that there were follow-up procedures for declarations not returned As at 31 August 2021 declarations had been received from all members and senior officers other than from one former councillor.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Inventory PPE The accounting changes relating to the Brunswick St./Union St. projects mean that assets previously classified as PPE have been reclassified as inventory. There are also a number of associated amendments to the CIES, although these do not have an impact on total net expenditure, and to the MIRS.		9,075 (9,075)	
Assets Held for Sale PPE The accounting changes relating to the Brunswick St./Union St. projects mean that there are no Assets Held for Sale at yearend		(5655) 5655	
Revaluation Reserve Capital Adjustment account Inventory The accounting changes relating to the Brunswick St./Union St. projects have involved a number of adjustments to reserves which also have an impact on the CIES.	(720) - 140	(720) 580 140	(720) - 140

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Capital grant receipts in advance Capital Adjustment account		(1,172) 1,172	
Capital receipts relating to the Union St. project (£433k cash received in 2019/20 + £739k cash received in 2020/21) were originally accounted for as income in those years. However, the income should not have been recognised until 2021/22. As a result the balance of capital grant receipts in advance at 31.3.21 was understated.	739		739
Capital receipts relating to the Brunswick St. project had been recognised in 2019/20 but should not have been recognised until 2020/21. A prior year adjustment was required in respect of 2019/20. As the receipts have been wholly used to fund expenditure in 2020/21 this change between years has no impact on the balance sheet at 31.3.21.	(1,588)		(1,588)

C. Audit Adjustments

We are required to report
all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
PPE Investment Property Balances disclosed as PPE assets under construction should have been disclosed as Investment Property assets under construction		(12,192) 12,192	
Current liabilities –Capital grants received in advance Long term liabilities – Capital grants received in advance The whole of the balance for capital grants received in advance was shown as a current liability, but should have been analysed out to identify those balances which were long term liabilities.		3.880 (3,880)	
Cash and cash equivalents Bank overdraft A bank overdrawn balance had been netted off against other cash balances in current assets, but should have been disclosed separately under current liabilities.		3,380 (3,380)	

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Short term debtors Short term creditors Accrual error leading to matching overstatement of debtors and creditors.		(238) 238	
Usable reserves Unusable reserves Collection Fund accounting adjustment leading to movement between reserves		(58) 58	
Overall impact	(1429)	0	(1429)

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

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Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The valuation for one investment property (Parkwood - Integra) was understated by £211,000 as there was an error in the calculations by the Council's external valuer. **.** **Dr Investment property** **Cr Revaluation Reserve**		**211** **(211)**		**Management consider the issue is not material.**
Overall impact	(211)	0	(211)	

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification 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.

Disclosure issue	Adjusted?
Balance sheet In the draft accounts the balance of £6,644,000 for Capital Grants Receipts in Advance was shown as a short term liability. It was agreed that this balance should be split to identify both short-term (£2,706,000) and long-term (£3,938,000) liabilities. **As a result of other changes the total for Capital grants receipts in advance in has increased to £7,817,000 with £3,937,000 disclosed as a current liability and £3,880,000 as a long term liability (Note 16).**	✓
Balance sheet **A bank overdrawn balance of £3,380,000 was netted off with other cash balances at "Cash and cash equivalents" but should have been disclosed separately under current liabilities.**	✓
Note 1 Additional disclosure table added to identify the Fees, Charges & Other Service Income accounted for under IFRS 15.	✓
Note 3 **New disclosure note added to explain the prior period adjustments required to the accounts and to disclose the movement between the original and restated figures.**	✓
Note 4 Additional disclosure included to identify the impact of a 10% change (£2.6m) in the value of the Council's investment property portfolio. Impact of a 10% change in the value of PPE amended from £7.6m to £8.6m.	✓
Note 8 Note expanded to quantify the measure of materiality used by the Council when preparing the financial statements.	✓

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification 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.

Disclosure omission	Adjusted?
Note 14 Fees for external audit services increased by £23,000 to reflect the fee notified in our 2020/21 Audit Plan.	✓
Note 17 Amendments to the capital commitments disclosure; commitment for Springfield Mill increased by £1,144,000 and for Kent Medical Campus reduced by £388,000.	✓
Note 26 In the draft accounts the total per the disclosure note for provisions did not agree to the balance sheet. Amendment agreed to the disclosure note increasing the total by £168,000.	✓
Various minor changes to amounts and narrative at other disclosure notes	✓

D. Fees

We set out below our fees charged for the audit and the provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£61,866	TBC
Total audit fees (excluding VAT)	£61,866	TBC

The proposed fee for the audit reconciles to Note 14 in the financial statements as follows;

Note 14: Total of £76,000 represents the 2020/21 audit fee of £61866 as communicated in our audit plan and additional fees of £14,500 for the 2019/20 audit which were not previously accrued.

Non-audit fees for other services	Proposed fee	Final fee
Housing benefit subsidy claim	£22,000	£25,000
Total non-audit fees (excluding VAT)	£22,000	£25,000

E. Audit opinion

Our audit opinion is included below.

Subject to the completion of outstanding work we anticipate we will provide the Council with an unmodified audit report.

We intend to issue an unmodified report.

Independent auditor's report to the members of Maidstone Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Maidstone Borough Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Business Improvement's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Business Improvement's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

from when the financial statements are authorised for issue.

E. Audit opinion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months.

In auditing the financial statements, we have concluded that the Director of Finance and Business Improvement's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance and Business Improvement with respect to going concern are described in the 'Responsibilities of the Authority, Director of Finance and Business Improvement and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance and Business Improvement is responsible for the other information. The other information comprises the Annual Governance Statement and the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

E. Audit opinion

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Finance and Business Improvement and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities for the Statement of Accounts the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Business Improvement. 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Business Improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Business Improvement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee are Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United

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Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012

• We enquired of senior officers and the Audit, Governance and Standards Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

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- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers and the Audit, Governance and Standards Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, fraudulent revenue recognition and fraudulent expenditure recognition.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Business Improvement has in place to prevent and detect fraud;

- journal entry testing, with a focus on unusual journals made during the year and the accounts production stage for appropriateness and corroboration

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA/LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that

E. Audit opinion

may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Maidstone Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

• our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'

• the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Signature:

Paul Dossett

Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

Auditor's Annual Report on Maidstone Borough Council

2020-21

November 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

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We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Appendices

A – The responsibilities of the Council

B – An explanatory note on recommendations

C – Use of formal auditor's powers

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made

Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Maidstone, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a surplus of £1.2m .

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

We have made some improvement recommendations including the production of a workforce plan.

Governance

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

We have identified some improvement recommendations around risk management.

Improving economy, efficiency and effectiveness

The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in is use of resources.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

We have made some improvement recommendations around performance management and procurement

Opinion on financial statements

We intend to provide an unmodified opinion on the Council's 2020/21 financial statements, subject to the completion of audit closing procedures including final reporting processes.

We reported the initial findings from our audit in our Audit Findings Report presented to the November 2021 Audit, Governance and Standards Committee. At that point our work was still in progress. Further work has identified the need for a number of additional material amendments to the financial statements. We will report the findings from our work in an updated Audit Findings Report to the November 2022 Audit, Governance and Standards Committee.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council’s responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office’s Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on the following pages.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in borough. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been left with increased financial uncertainty.

Throughout the huge uncertainty of last two financial year, the Council worked to minimise expenditure in all areas where appropriate and some of the capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the community support hub and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the district.

Precepts for 2020/21 for County, Fire and Police services were set in February 2020 before the effects of the pandemic were realised and as such district councils have had to pay these over as planned, while collection rates have been down, providing added pressures on cashflow.

At the onset of the pandemic play areas were closed and several services that were either non-essential or non-compatible with social distancing rules were suspended including food safety inspections and taxi driver knowledge tests. The Council's contractors also closed the leisure centre and the theatre. Meanwhile staff were diverted to Covid related work including resourcing the "Community Hub" and paying out Covid related support grants across the district.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March 2020 and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. An updated Medium Term Financial Strategy (MTFS) was taken to Policy & Resources Committee in July 2020 and October 2020 papers for this committee included a further finance update. The impact of Covid was also included in the scheduled quarterly budget updates to Policy & Resources Committee along with further updates on the MTFS. At July 2020, it was projected that the Council would have an in-year deficit of £8.56m. This shortfall was to be funded by a mixture of government grants, although it was unclear at that time how much might be forthcoming, along with savings and use of reserves. The final outturn for the General Fund was an underspend of £1.2m which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome has had positive benefits for the Council's financial resilience in 2021/22 and beyond. A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget contained reliance on reserves and savings as recovery begins. Review of Council papers indicates the assumptions used for financial planning in 2020/21 and 2021/22 are sound. We have seen no evidence that inappropriate short term measures are being used to relieve current pressures.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement only covered the 2021/22 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the clarity now that 2022/23 was also be covered by a 1-year settlement. Recent indications from the Secretary of State is there may be a two year settlement for 2023/24 and 2024/25 but n formal announcement has yet been made.

Financial sustainability

The Council has a detailed financial plan covering the years to 2025/26. Given the uncertainty of the financial regime its plan has been drawn up using prudent assumptions on future income streams and three scenarios have been planned for adverse, neutral and favourable. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Budgets are discussed with Service Heads and then passed via Leadership Team and service committees to Policy and Resources Committee before going to full Council. There is discussion of the MTFS and potential savings. Savings and pressures are shown together in the MTFS. There is also an annual consultation exercise with residents to identify their budget priorities. The Council has a history of transparency in financial matters.

How the body plans to bridge its funding gaps and identifies achievable savings

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Policy and Resources Committee as part of the Budget Management Report.

As part of the 2021/22 budget setting process, budgets were reviewed and changes to the budget made adjusting for pressures, new initiatives, expected cost increases and income changes. The 2019/20 to 2022/23 financial plan highlighted a budget gap of £6.8m in the medium term with required savings of £21.7m, of which at February 2020 £.16.3m still needed to be identified. By February 2021 when the 2021/22 budget was set the medium-term budget gap had reduced to £2.8m with a residual gap of £1.8 m after already identified savings and use of reserves. The Council has a healthy reserves position so this expected draw down is not of immediate concern.

While savings potential has been affected by the pandemic, from our experience in previous years Maidstone has a history of successful delivery on savings and we have no reason to believe that this will not happen going forward post Covid.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Given the shortfalls in staffing across the sector and wider economy , developing a new credible workforce strategy is crucial

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The finance team is well established with significant experience of managing the Council's finances albeit there have been recent changes in key roles.. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive Officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to P&R on a quarterly basis with other performance information.

The Council has adopted a Capital Strategy and has a capital planning process. These are regularly reviewed to reflect changing circumstances. The capital programme is agreed by the strategic investment board (SIB) before going to members Other than funding the replacement of assets which deliver services as well as recurring capital expenditure, the capital programme is used to support the council's objectives including housing and homelessness and property investment. During 2020/21 the capital programme is overseen by Policy & Resources Committee, while projects are subject to an appraisal and approval process.

Financial sustainability

The Council has the necessary resources for financial management including a financial system able to provide timely financial information; the necessary financial skills, experience and capacity in the finance team; and budget holders in the services, with clearly defined responsibilities for budget management. Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary provide effective challenge. The Finance team is well established with significant experience of managing the Council's finances.

The current corporate strategy covers the period 2019 to 2045 and was agreed in February 2020. The current priorities are:

- Embracing Growth and Enabling Infrastructure
- Safe, Clean and Green
- Homes and Communities
- A Thriving Place

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The plan is underpinned by a number of strategies and plans including the MTFS, the Economic Development Strategy and the Housing Strategy

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led making forecasts more difficult. The Covid-19 pandemic has also made it more difficult to predict future costs and demand. However, in emerging from the pandemic a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will also be critical to ensure that budget holders and the Council as a whole are held to account for any future failure to deliver to agreed budgets. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical that there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as a strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. Whilst discretionary spends are the areas which predominately come under scrutiny when savings plans are being considered, there is of course review of costs for statutory services to provide best value, While we understand that splitting statutory and discretionary spend is not always straight forward, doing so would help a resident understand the choices faced by the Council .

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

In 2020/21 an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by the Kent Resilience Forum (KRF), of which Maidstone Borough Council is a member. The Council has paid out over £30m in Covid grants, supporting local residents and businesses and providing advice to business. Planning for 2021/22 was challenging as the pandemic has created increased uncertainty around future funding. Subsequent to this year one year settlements have been provided for 2021/22 and 2022/23..

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

However, the Council does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the "new normal". As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. As previously mentioned, we would recommend the Council sets a clear timetable for production of the new workforce strategy.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2020/21 has been a unique year for financial management given the impact of the pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Financial sustainability

Within the corporate risk register the Council has identified a risk relating to a general financial downturn, unexpected changes to government funding or the failure to achieve income or savings targets creating financial pressures which make it more difficult to maintain standards or achieve the Council's objectives. It is noted that the latest Strategic Risk Register indicated this risk was marked as "red". Ways in which the Council is managing this risk include budget monitoring, the MTFS, scenario planning, the Commercial Investment Strategy and use of reserves. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Policy and Resources Committee meetings. A list of financial risks is included in budget papers sent to members when setting the Council's budget.

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the Council should assess which Covid driven working patterns and arrangements should continue in the post pandemic world. Our work and broader analysis of the sector indicates the Council will face significant financial challenges in future years and we will monitor this response in those years. Previous experience indicates the Council is well equipped to deal with these challenges.

Conclusion

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Financial Sustainability

	Recommendation One	Recommendation Two
Summary recommendation	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.	A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.
Auditor judgement	While we understand that clearly differentiating costs is not always easy, no distinction is made in the financial information reported to Those Charged With Governance (TCWG) between statutory and discretionary spending. This approach would help members and residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.	The Council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Therefore the strategy has not been reviewed to reflect the demands of the "new normal". As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We would recommend the Council sets a clear timetable for production of the new workforce strategy. Given the shortfalls in staffing across the sector and wider economy , developing a new credible workforce strategy is crucial.
Management comment		

The range of recommendations that external auditors can make is explained in Appendix B

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

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How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

The Annual Governance Statement for 2020/21 states ".The Council has in place a robust risk management framework and guidance and risk management is considered by the Audit Governance and Standards Committee."

The highest-level risks on the Corporate Risk Register are reported to and monitored by Corporate Leadership Team throughout the year. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

The risk management framework was approved in December 2020 and this provides guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, evaluating and monitoring risk .

Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022 with budget risks being reported in September 2021. The Strategic risk register is reported to Policy & Resources Committee quarterly as part of wider reporting on finance and performance. The Strategic Risk Register contains 11 risks which in our expected range of risk (5 to 15 risks) to allow adequate review of those threats to Council objectives. Nine of the risks are rated red on mitigated risk scores and efforts should be made to mitigate these risks further .We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council

The risk register reported to Policy and Resources Committee is clear showing current and mitigated risk score, current and planned controls. The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

For 2022/23 we understand arrangement are for the Corporate Risk Register to be presented quarterly to the Corporate Services Policy Advisory Committee and the Executive.

We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff in tandem with the new risk management policy and providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk . These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

Governance

Internal Audit services are provided by Mid Kent Audit, a shared service organisation covering Maidstone, Ashford, Swale and Tunbridge Wells Borough Councils. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion was provided to the Council by July 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit, Governance and Standards Committee periodically. The Head of Internal Audit Opinion concludes that "the Council managed its internal controls to offer sound assurance on control effectiveness", "corporate governance arrangements for the year ended 31 March 2021 comply in all material respects with guidance on proper practices" and " risk management arrangements at the Council for the year ended 31 March 2021 are effective and provide sound assurance". Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Internal audit presented one "weak" assurance report in 2019/20. This related to Health and Safety and found weaknesses in monitoring of compliance and completion of mandatory training. No "weak" assurance reports were issued in 2020/21.

Counter fraud services are provided by Mid Kent Audit and the Revenue and Benefits shared service.

Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended. The anti-fraud, and corruption policy was last updated in January 2020

The annual work plans for internal audit are currently approved and overseen by the Audit Governance and Standards Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

How the body approaches and carries out its annual budget setting process

The financial landscape made 2020/21 a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council indicates that arrangements are in place to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the Council.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, but the effects on the revenue budgets are minimal given the current rates of return on investments and costs of borrowing in a low interest rate world in place in 2020 and 2021.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Budget managers have access to the finance system and can review budgets at any time. Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to Policy & Resources Committee on a quarterly basis with other performance information. Review of Policy and Resources papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, generally stable and experienced. Although the previous established Head of Finance left the Authority earlier this year, a new Head of Finance with considerable public sector finance experience has taken up the post in July 2022. The S151 Officer is the Director of Finance and Business Improvement and sits on the Corporate Leadership Team.

Governance

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Maidstone and without a concerted effort across the council the year end position could have been troubling for financial sustainability. We consider budget management arrangements to be robust and we have found no areas of concern during our work.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides an appropriate level of scrutiny over external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to a failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements .

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

The administration changed at the elections in May 2021. The Council had been No Overall Control but has moved to a Conservative administration. The new Council has extensive plans for change. The old committee system is due to be replaced by a Cabinet system. We have no concerns as yet in relation to risks related to high turnover of Council members which can lead to inadequate understanding of the organization leading to poor decision making. The importance of maintaining a strong financial culture is vital in this context.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the pandemic responses have been deliberate and thought out.

We have noted that the Council has moved to a Cabinet system, following the May 2022 elections with the P&R Committee being discontinued from May 2022. As our report relates to 2020/21 we still make references to the P&R Committee throughout our report in the context of the arrangements in place for that year.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and declarations are sent to all Members and Senior officers for their completion. Rules on gifts and hospitality are included in the code of conduct. The gifts and hospitality register is retained by the Monitoring Officer and is available for inspection on request.

Officers are required to make a declaration every three years and on employment for new employees and to update if there are any changes. The gifts and hospitality register is held in Executive Support by Directorate and the policy is advised to staff on employment and reminders sent out in the staff newsletter, Inside Maidstone. This is also specifically done in early December each year to remind staff of expectations near to Christmas. We found no evidence of interests, gifts or hospitality not being declared.

Conclusion

We found no evidence or indication of significant risks to your governance arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Governance

	Recommendation Three	Recommendation Four
Summary recommendation	While we feel risk management arrangements are generally satisfactory, to further enhance the risk management approach the Council should consider: • Reporting current and mitigated risk scores to Audit, Governance and Standards Committee • Reporting risk to the Audit, Governance and Standards Committee every six months • Factors such as target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review should be reported to Members • Developing a comprehensive risk management training programme for members and staff.	Codes of conduct and the Whistleblowing Policy should be updated as soon as possible and annual thereafter
Auditor judgement	Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022.We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council. The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. But this information is not reported to Members and Senior Management This could be included in report and can be linked to the three lines of defence model advocated by the Institute of Internal Auditors. We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff providing greater clarity of the importance of risk management . These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.	Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended.
Management comment		

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

This year has been an incredibly challenging one for public services as a whole and Maidstone is no different. Kent was the first to see the Alpha variant of Covid-19 and this has meant the county has been particularly hard hit by the pandemic. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Maidstone played its part in the county wide effort to support residents and local business. Local government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

There is comprehensive quarterly performance reporting to Policy and Resources Committee integrated with reporting of financial results and strategic risks.

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.

The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Corporate Strategy is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Strategy runs until 2045 .

As previously mentioned, the Council has a comprehensive approach to performance management.

We found no evidence of failure to meet minimum service standards or consider appropriate service delivery options. The organisation has a focus on long term development and not short-term expediency.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. The Council is flexible in its approach, working in partnership when it is efficient and economical to do so. Maidstone host Mid Kent Services. Mid Kent Services (MKS) is a partnership between Maidstone, Swale Borough Council and Tunbridge Wells Borough Council which started in 2008. Working together the objective is to improve and reduce the cost of services to residents across Mid-Kent. The governance arrangements for Mid Kent Services include the Shared Service Board (comprised of each Council's s151 Officers) that meet quarterly to review cost and performance, Exec Board (CEO's) that meet quarterly to review the direction and priorities and MKS Board (Leaders and CEO's) that meet bi-annually to have political oversight of direction and performance, including consideration of any expansion of shared services. It's important to note that any decisions coming from the above are made in line with the sovereign decision-making arrangements for each partner, with KPI's and budget management also forming part of the standard corporate reporting at each partner authority.

Improving economy, efficiency and effectiveness

A list of current shared service arrangements is included below.

service	Host Authority	Other Authorities
Environmental Health	No host	Maidstone, Swale and Tunbridge Wells
Human Resources	Maidstone	Swale
ICT	Maidstone	Swale and Tunbridge Wells
Internal Audit	Maidstone	Ashford, Swale and Tunbridge Wells
Legal	Swale	Maidstone and Tunbridge Wells
Parking Enforcement	No host	Maidstone and Swale
Planning Support	Maidstone	Swale
Revenues and Benefits	No host	Maidstone and Tunbridge Wells

Leisure services are run by the Maidstone Leisure Trust The contract relationship has three layers – Council > Maidstone Leisure Trust > Operator. The leisure centre contract is reported back to the council via contract monitoring meetings held on a monthly basis. The contractor is monitored on performance against contract KPIs which include visitor numbers, customer satisfaction and financial performance. Officers also monitor the contractor's agility to emerging issues, which includes things like how they react to declines in certain areas, maximise opportunities in growing areas and contribute to public health initiatives. Issues of non-performance are managed via the monthly meeting process or escalated to senior officers where required. In terms of value for money the council receives a one third profit share after the contractor's fee threshold has been surpassed . It should be noted that 2020/21 was a difficult year for the leisure industry nationally with facilities being forced to close due to Government policy during the pandemic.

Serco Leisure (the operator) took advantage of their contractual position to recover their losses from the Council, less £5,000 payable by the Leisure Trust. This was partially offset by a contribution from the National Leisure Recovery Fund. In addition, Serco have not paid the annual £0.2m contribution due under the contract

The Mid Kent Waste Collection Contract with Biffa Municipal Ltd is monitored through quarterly Partnership Board meetings, monthly contract meetings with the local Biffa management team and daily proactive inspections. Performance relating to health and safety, compliance with the contract specification and application of the performance mechanism is reported through the four tiers of contract management: local contract meetings, partnership monitoring meetings, Strategic Operations Group and Partnership Board. Maidstone Borough Council is the lead authority for the Mid Kent Contract; however, the Supervising Officer responsibility rotates biennially. Decision making responsibility remains with each individual authority, although agreement is sought across the Partnership to ensure consistency and a unified approach to contract management.

The Council also works with other agencies to co-ordinate and improve services and value for money.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. The Council's approach to procurement is laid out clearly in the Procurement Standing Orders in the Constitution and an 'Maidstone Borough Council Approach to Procurement' and 'Purchasing Guide', published on the intranet. The whole process is co-ordinated and supported by a corporate procurement team, headed by a fully Chartered Institute of Purchasing and Supply (CIPS) qualified Procurement Manager. An internal audit review of procurement was completed in July 2022 and gave a 'sound' conclusion on the design and operation of controls, the second highest opinion of four available.

Improving economy, efficiency and effectiveness

We have not, however, been provided with a procurement strategy and we feel one should be produced to provide an overview of the Council procurement activities. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements in conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

Conclusion

We found no evidence or indication of significant risks to your arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation Five	Recommendation Six
Summary recommendation	Consideration should be given to developing a programme of service reviews using such tools as benchmarking to identify best practice. Firstly, it could compare its performance reporting (in terms of number and types of KPIs against other Kent Districts) to determine whether others are capturing and reporting useful information the Council is not. Secondly, the Council could actually compare the performance of existing KPIs against other Councils (starting in Kent initially to determine whether the exercise is useful).	The Data Quality Policy should be updated as soon as possible and annual thereafter. This Strategy should set out how the Council is delivering transparency in a way which is safe, accurate and secure, and which complies with the relevant transparency regulations as well as the General Data Protection Regulations and the Data Protection Act 2018. The Strategy should define how good quality data is being collected and handled to inform evidence-based decision making.
Auditor judgement	Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.	The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review. Protecting and managing information is a key risk area with significant associated financial and reputation impacts.
Management comment		.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Improving economy, efficiency and effectiveness

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	Recommendation Seven
Summary recommendation	We recommend a Procurement Strategy is developed and in addition to the explaining the Council's approach to procurement it includes the following: SMART (specific, measurable, achievable, realistic, and timely) objectives are clearly set out in the Strategy to allow the Council to assess whether the Strategy is delivering as intended. A framework for how the delivery of the Strategy will be achieved. An annual or biennial review against SMART objectives reported to the Resources and Strategy Committee would allow the Council to assess how successful the Strategy is in delivering its objectives.
Auditor judgement	While procurement processes are generally felt to be sound and this view was recently endorsed by Internal Audit, we have not been provided with a procurement strategy and we feel one should be produced. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach
Management comment	.

The range of recommendations that external auditors can make is explained in Appendix B

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

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We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial Sustainability

The pandemic has had a significant financial effect on the Council predominantly through the loss of income in areas as commercial rents and car parking. However, operational changes have led to a change in expenditure profiles which has partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

There is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance

In response to the Covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Kent and Medway went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

In response to the emerging risk of Covid19 in February 2020 an officer response group was set up and their responsibilities included representing the council at the daily multi agency meetings set up via the Kent Resilience Forum, maintaining situational awareness, feeding into the common operating picture (COP) reports for the council and providing guidance to officers on emerging HR matters. After declaration of an emergency, strategic leadership was provided by CLT and response was led by Heads of Service.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of the spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates to Policy and Resources Committee.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Improving economy, efficiency and effectiveness

In March 2020 there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation. Some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council started a food delivery service for those shielding in partnership with NHS volunteers at the request of government and procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income arising from immediately apparent changes was also carried out and reported to management and members.

The Councils response to the Covid-19 emergency included providing temporary accommodation for rough sleepers and people at risk of homelessness, supporting vulnerable residents and the Council distributed millions of pounds in Business Grants.

Conclusion

We found no evidence or indication of significant risks to your Covid-19 arrangements as such no further risk-based work has been undertaken in this area.

Opinion on the financial statements

Audit opinion on the financial statements

We intend to provide an unmodified opinion on the Council's 2020/21 financial statements, subject to the completion of audit closing procedures including final reporting processes.

Audit Findings Report

We reported the initial findings from our audit in our Audit Findings Report presented to the November 2021 Audit, Governance and Standards Committee. At that point our work was still in progress. Further work has identified the need for a number of additional material amendments to the financial statements. We will provide an updated Audit Findings Report to the November 2022 Audit, Governance and Standards Committee.

Whole of Government Accounts

We are required to carry out specified procedures on the Whole of Government Accounts consolidation pack under group audit instructions issued by the National Audit Office.

As the relevant values in the Council's financial statements do not exceed the thresholds specified in the 2020/21 group audit instructions no detailed work will be required.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

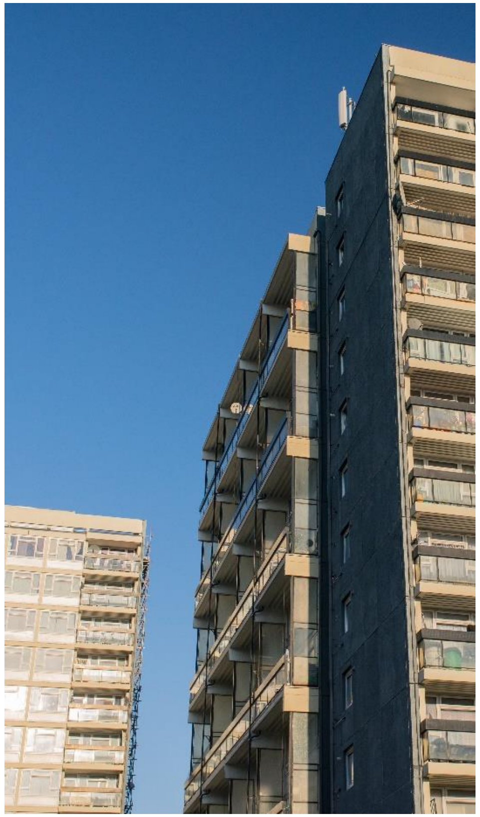
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council 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.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council auditors as follows:

Type of recommendation	Background	Raised within this report
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Service to discuss and respond publicly to the report.	No
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes, see pages 13 and 14.

Appendix C - Use of formal auditor's powers

The following are formal powers that can be used by auditors:

Formal power	Used by auditor in 2020/21
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	Not required.
Public interest report **Under Schedule 7 of the Local** Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	Not required.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	Not required.
Advisory notice Under Section 31 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	Not required.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	Not required.

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