

# Maidstone Borough Council Audit Progress Report and Sector Update

**Year ending 31 March 2021**

September 2021



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# Introduction



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

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

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

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

# Progress at September 2021

## Financial Statements Audit

We presented our 2020/21 Audit Plan to the March 2021 Audit, Governance and Standards Committee. This set out our proposed approach to the audit of the Council's 2020/21 financial statements.

Under the Accounts and Audit (Amendment) Regulations 2021 authorities are required to publish audited financial statements by 30 September 2021. However, all audit firms continue to face very significant delivery pressures caused by delays to the 2019/20 audit cycle arising from the pandemic. Only 1 audit is signed in the country as at 23 September 2021.

Our financial statements audit commenced in August 2021. Whilst we have made substantial progress, we are not in a position to complete our work on the Council's accounts by 30 September. The main areas of work where testing remains in progress include;

- creditors;
- debtors; and
- PPE revaluations.

In our Audit Plan we identified a number of significant risks which are areas of focus for our audit. A summary of progress in these areas is included on the following slides.

We are currently aiming to complete our audit fieldwork in October 2021. We apologise for the delay but it is function of significant slippage across the local government audit sector due to additional regulatory requirements and capacity constraints.

## Value for Money

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 improving 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, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to structure their commentary on the audited body's arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

Auditors are required to complete this work within three months after giving the opinion on the Council's financial statements.

As reported in our audit plan, our initial risk assessment did not identify any areas of significant weakness in your arrangements to secure value for money.

# Progress against significant risks

## Significant risk (from audit plan)

### Valuation of land and buildings

The Council revalues its land and buildings on a cyclical basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the values involved and the sensitivity of the estimate to changes in key assumptions. The draft accounts include the following balances:

Property, Plant and Equipment: £124,418,000

Investment Property: £25,697,000

Heritage assets: £10,433,000.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2021.

We therefore identified the valuation of land and buildings, particularly movements relating to revaluations and impairments, as a significant risk.

### Management override of control

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and any transactions outside of the normal course of business as a significant risk.

## Progress to date

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land and buildings is not materially misstated;
- evaluated management's assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work; and
- written to the valuer to confirm the basis on which the valuations were carried out.

We are currently undertaking our detailed testing of the revaluations which support the carrying value of land and buildings in the financial statements.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals; and
- tested a selection of journal entries for appropriateness and corroboration.

We are currently completing our work to understand the accounting estimates and critical judgements applied by management in the financial statements and to consider their reasonableness.

# Progress against significant risks

## Significant risk (from audit plan)

### Valuation of net pension fund liability

The pension fund net liability, as reflected in the Council's 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 size of the numbers involved (£18m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### 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 meet targets and we had regard to this when planning and performing our audit procedures.

Management could defer recognition of non-pay 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.

## Progress to date

We have:

- 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 their management expert (actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; and
- performed detailed testing on the information provided to the actuary and on the assumptions used by the actuary.

Our work in this area is substantially complete, subject to review of work performed by the auditor of the Kent Pension Fund which relates to the audit of the Council.

We have:

- tested transactions around the end of the financial year to assess whether they have been included in the correct accounting period.

We are currently completing our work to obtain assurance that payables and accruals in the financial statements have been appropriately valued.

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 437"><b>Audit Plan</b></p> <p data-bbox="120 456 1323 555">We are required to issue a detailed audit plan setting out our proposed approach to give an opinion on the 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	March 2021	Complete
<p data-bbox="120 584 421 612"><b>Audit Findings Report</b></p> <p data-bbox="120 632 1263 660">The Audit Findings Report summarises the outcomes from our financial statements audit.</p>	September 2021	To be completed
<p data-bbox="120 695 338 724"><b>Auditors Report</b></p> <p data-bbox="120 743 736 772">This is the opinion on your financial statements.</p>	TBC	To be completed
<p data-bbox="120 815 450 844"><b>Auditor's Annual Report</b></p> <p data-bbox="120 863 1155 892">This Report communicates the key issues arising from our Value for Money work.</p>	TBC	To be completed

# Sector Update

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

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

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

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

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

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

Public Sector

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

Local  
government



# What can be learned from Public Interest Reports? – Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

# Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

**Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)**

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	<b>3,181.254</b>
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	<b>378.846</b>
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	<b>298.584</b>
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	<b>299.433</b>
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	<b>340.858</b>
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	<b>2,363.926</b>
<b>Total</b>	<b>329.937</b>	<b>2,111.187</b>	<b>1,791.153</b>	<b>1,503.848</b>	<b>1,126.777</b>	<b>6,862.902</b>



The figures are available in full here: <https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

**Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)**

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	<b>1,215.708</b>
Council tax	399.037	0.000	217.633	191.219	232.727	<b>1,040.616</b>
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	<b>2,137.728</b>
Commercial income	82.448	24.159	120.629	204.211	52.154	<b>483.600</b>
Other	33.494	39.947	27.163	53.664	45.166	<b>199.435</b>
<b>Total</b>	<b>1,307.903</b>	<b>259.029</b>	<b>1,113.524</b>	<b>1,053.190</b>	<b>1,343.441</b>	<b>5,077.087</b>

# Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

# 2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.”

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note “This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

# Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>



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