The Audit Findings for Maidstone Borough Council

Year ended 31 March 2022

July 2023

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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 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.

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.

Name: Sophia Brown
For Grant Thornton UK LLP
Date: July 2023

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 2022 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 its 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 (AGS), 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 is now substantially complete. The findings from our financial statements work are summarised in Section 2 of the report.

Our work to date has identified a number of misstatements above the level of which we are required to report – further details are included at Appendix C ("Audit adjustments").

The areas of outstanding work are:

- completing our work on PPE revaluations – we are currently unable to progress our work as, although some information has been received from the Council's external valuer, other information requested from the valuer in March 2023 has not yet been received;
- obtaining an updated report from the Council's actuary detailing the impact of the triennial revaluation on the Council's net pension liability disclosures as at 31 March 2022. If the impact on the financial statements is material then additional audit procedures will be required;
- reviewing management's proposed approach for including the Council's museum exhibits as heritage assets in the financial statements;
- resolving the remaining technical queries relating to the GT "hot review" of the financial statements;
- final review and audit quality procedures;
- reviewing a final version of the financial statements which contains all amendments, together with a final version of the Narrative Report;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review to the date of signing our opinion.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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 the outstanding work as outlined above our anticipated audit report opinion will be unmodified.

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 are currently completing an assessment of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources which covers both the 2021-22 and 2022-23 financial years. Our work to date has not identified any risks of significant weakness in the Council's arrangements.
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 Annual Auditor's report.
Significant matters	The Council originally published draft 2021-22 financial statements in July 2022. It was agreed that following amendments to the 2020-21 accounts and the findings of a GT technical "hot review" a revised version of accounts would be produced in January 2023. Our audit fieldwork has been performed on this revised version, and our audit findings report identifies adjustments between this revised version and the most recent amended version of the financial statements received in June 2023. Our work on property revaluations is still in progress. We are currently unable to complete this work as, although some information has been received from the Council's external valuer, other information requested from the valuer in March 2023 has not yet been received;

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.

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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Timeline for the 2021-22 audit

The Council originally published draft 2021-22 financial statements in July 2022.

Given the nature of the issues identified in the 2020-21 accounts our risk assessment framework required a detailed review (or "hot review") of the 2021-22 draft accounts by our audit technical team. We shared the outcomes from this review with management in November 2022.

A series of amendments to the 2020-21 accounts agreed after July 2022 also had implications for the 2021-22 accounts. Given the issues identified by the hot review and the outcomes from our 2020-21 audit it was agreed that a revised draft of the 2021-22 accounts would be produced before the start of the 2021-22 audit.

The need to prioritise other finance team work meant that a revised draft was first made available on 11 January 2023. This initial draft excluded the Cash Flow Statement; a complete version of accounts including the Cash Flow Statement was made available on 20 February 2023. In February we identified that the January 2023 accounts did not properly reflect the analysis per the Council's fixed asset register, and a further updated version of the accounts was produced to facilitate audit testing.

Our audit fieldwork has been performed on this January 2023 revised version of accounts, which contained a significant number of material changes to the version published in July 2022. This Audit Findings Report identifies adjustments between the January 2023 version of the financial statements and the most recent amended version of the financial statements received in June 2023. The report also takes into account a number of amendments to the June 2023 financial statements which have been agreed with management.

The overall volume of our audit work has increased in 2021-22, in part due the continuing impact of FRC requirements, changes to auditing and accounting standards, and developments in our audit approach. However, the most significant impact has arisen from the technical "hot review" process. The review has raised a series of technical issues which have required work by management to investigate the issues and provide updated working papers to explain the Council's current or proposed approach. The technical capacity within the Council's finance team is limited and given the competing demands on finance team time over this period it has not been possible to clear all of these queries promptly. Although an initial management assessment and agreement to responses in principle was completed by March 2023, the process of providing updated working papers for review by audit and making accounts amendments has continued through to June 2023. Progress in May and June has been limited due to management focus on 2022-23 accounts closedown and GT work on NHS accounts. Areas where technical queries are still in progress at the date of this report include issues relating to heritage assets and the accounting treatment for the acquisition of Maidstone House.

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.

In our audit plan we reported a materiality level of £1,950,000. Based on the total expenditure reported in the draft financial statements we updated our materiality to £2,049,000.

	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	2,049,000	This is approximately 2% of gross revenue expenditure.
Performance materiality	1,537,000	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	102,000	This is 5% of materiality.
Materiality for disclosures relating to officer's remuneration and exit packages	100,000	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 September 2022 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 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 which would lead us to change our conclusion at the planning stage that the risk of fraud arising from revenue recognition can be rebutted.

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 conclusions from our work to date are reported at the section "Financial statements – key judgements and estimates".

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 to date has not identified any issues in respect of this risk. **Triennial revaluation of the Kent Pension Fund** The Council is a scheduled body to the Kent Pension Fund. The latest triennial valuation for the Fund, which is as at 31 March 2022, has recently been published. This valuation provides updated information for the net pension liability as at 31 March 2022, particularly in respect of membership data and demographic assumptions. As a result we have asked management to obtain a revised report from the Council's actuary detailing the impact of this updated information on the Council's net pension liability disclosures. We anticipate that the updated information will have a material impact on these disclosures and will therefore require amendments to the Council's 2021-22 financial statements. Where there is a material impact on the financial statements additional audit work will be required to: • obtain assurance in respect of the updated membership data; • consider the reasonableness of any revised assumptions and estimates; and • check the accuracy of management's adjustments to the financial statements.

2. Financial statements – other risks

Risks identified in our Audit Plan	Commentary
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 work to date 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 in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit conclusion	Assessment
Valuations: Land and Buildings: £129,257,000 Investment property: £43,391,000 Heritage assets: £10,433,000	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 2022. 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 2021-22. Engagement with the Council's external valuer Our work on revaluations involves detailed testing of valuations for the following individual assets: - 26 PPE assets - 20 investment property assets This required us to obtain information from the Council's external valuer on the underlying calculations, assumptions and source data. We first requested information from the external valuer relating to the 26 PPE assets on 21.2.23, and for the 20 investment property assets on 8.3.23. We then met with the external valuer to discuss the queries relating to PPE assets on 14.3.23. It was agreed that the remaining responses to queries would be provided promptly. However, this did not happen, despite what we understand were repeated attempts by the Council's finance team to engage with the valuer. Responses relating to the 26 PPE assets were eventually received on 21.6.23. An initial review indicates that there are 8 assets for which the responses are not complete. At the date of this report no responses have been received to the queries on the 20 investment property assets first raised in March 2023. We will be unable to complete our work on the valuation of land and buildings until the information requested from the external valuer has been received.	Work to complete our testing of PPE revaluations is still in progress.	**TBC**

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit conclusion	Assessment
	Valuation of heritage assets The draft financial statements included a balance of £10,433,000 for heritage assets. Of this balance £9,090,000 related to museum exhibits. 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". In our 2020-21 Audit Findings Report we noted that the relevant exhibits had not been revalued for many years. It was therefore unclear how far the closing valuation used in the 2020-21 financial statements remained current. Management have reviewed this balance and the relevant underlying museum records. They have concluded that there is no clear trail to support the historic valuations for many of the museum exhibits previously included on the balance sheet. A catalogue of assets held in the Council's Collections Management System (Adlib) has around 10,000 items for which valuations are recorded; management believe that this record should more appropriately form the basis for disclosures in the financial statements. Using this listing the valuation to be included for museum exhibits would be £14,815,000. We noted that many of the valuations on the Adlib record also date from many years ago. Management propose a rolling programme of work over 3-5 years to revalue all items over £50,000. However, we are currently discussing with management how far the current records will support the inclusion of valuations in the 2021-22 financial statements. Any material changes using information which was available in previous years may also require a prior period adjustment. The disclosure on heritage assets includes a number of categories other than museum exhibits. We agreed that additional assets with a value of £625,000 per the Council's records should be included under these other headings.		**TBC**

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 – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit conclusion	Assessment
	Componentisation of assets The CIPFA Code of Practice on Local Authority Accounting (paragraph 4.1.2.43) requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost shall be depreciated separately (componentisation). The Council does not currently have an accounting policy on asset componentisation and does not apply componentisation when depreciating its assets. This is not consistent with the Code. Typically smaller component assets such as boilers have shorter asset lives, and therefore annual depreciation on the Council's asset base is likely to be understated. The size of any misstatement cannot be easily quantified. However, we noted that the Council's largest assets are revalued annually, and that accumulated depreciation on these assets will be written off at that point. Depreciation charges are also capital transactions which are subject to adjusting entries through the Movement in Reserves Statement, and therefore are transactions which will have no impact on the General Fund balance. We concluded that the issue was not material for our opinion. However, we recommend that management agree an accounting policy for asset componentisation and use this as the basis for depreciation calculations in future year. Asset lives for infrastructure assets Infrastructure assets are carried at cost on the balance sheet. The Council's policy is to depreciate infrastructure assets over 20 years. We noted that at other authorities infrastructure assets are typically depreciated over 50 years. At 31 March 2022 the Council had infrastructure assets with a gross cost of £6,455,000 and a net book value of £2,313,000. We noted that the Council's infrastructure assets include two steel footbridges with a gross cost of £3,382,000. These assets were almost fully depreciated at 31 March 2022.		**TBC**

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit conclusion	Assessment
	We queried if these assets had a significant remaining useful life. Management advised that there is an annual technical assessment of the bridges and that this had concluded they continued to be in good condition. However, this assessment did not provide an estimate of future useful life. Management advised that obtaining this information would potentially require input from an external expert at additional cost. Given that these assets will soon be fully depreciated the Council will need to re-assess their useful asset life at that point. We recommend the Council investigate how best to arrive at an appropriate estimate to support its depreciation calculations. Acquisition of Maidstone House In December 2021 the Council entered in to a 199-year lease agreement for Maidstone House. The agreement involved a one-off payment of £7,070,000 on completion. There are no future payments to the lessor. In the Council's accounts this acquisition was treated as a purchase of Property Plant and Equipment. We have considered this arrangement and concluded that it meets the criteria to be classified as a finance lease. We are currently discussing with management the appropriate accounting treatment for the 2021-22 accounts. We have agreed that, irrespective of the accounting treatment, additional disclosure will be required to identify the property as a finance leased asset.		TBC

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 – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Net pension liability – LGPS £85,362,000	At 31 March 2022 the Council has a net pension liability of £85,362,000 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 of the Council's assets and liabilities under the scheme. A full valuation is required every three years. 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. For 2021-22 contribution rates for the LGPS scheme continue to be based on the triennial revaluation as at 31 March 2019. A full revaluation has now been performed as at 31 March 2022.	We engage an auditor's actuary to assess the work of management's actuary and the reasonableness of the approach used. The auditors' actuary has provided us with indicative ranges for assumptions, which we report below. To date our work review of the Council's net pension liability has not identified any issues. However, we have asked management to obtain an updated report from the Council's actuary detailing the impact of the triennial revaluation on the Council's net pension liability disclosures as at 31 March 2022. If the impact on the 2021-22 financial statements is material additional audit procedures will be required.	TBC

Assumption	Actuary Value	PwC range	Within range?
Discount rate	2.6%	2.55 -2.60%	✓
Pension increase rate	3.2%	3.05 -3.45%	✓
Salary growth	4.2% 4.3%	CPI + 1% CPI + 1%	✓ ✓
Life expectancy – Males currently aged 45 aged 65	23.0 21.6	21.9 - 24.4 20.5 – 23.1	✓ ✓
Life expectancy – Females currently aged 45 aged 65	25.1 23.7	24.9 - 26.4 23.4 – 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.

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 year-end cash and investment balances. For one balance we did not receive a response and 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	At the date of this report we have not obtained all of the information requested from the Council's external valuer.

2. Financial Statements – other communication requirements

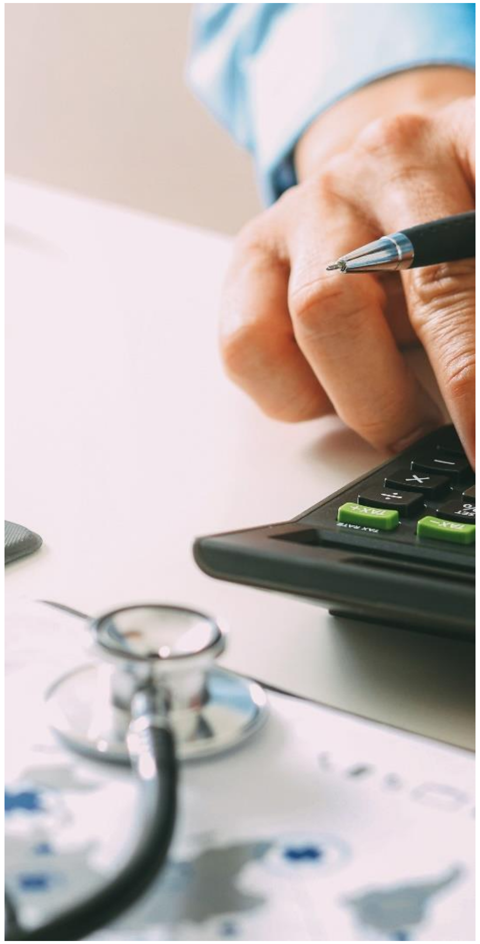
Our responsibility

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; and • 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; and • 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; and • 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; and/or • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. Subject to the completion of our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources 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. We have confirmed that the Council does not exceed the thresholds specified by the National Audit Office for 2021-22. 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 2021-22 audit as our VFM work is not yet complete.



3. Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office issued its guidance for auditors in April 2020. 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 are currently completing our assessment of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our assessment covers both the 2021-22 and 2022-23 financial years. As we have not yet completed all of our VFM work we are not in a position to issue our Auditor's Annual Report.

As part of our work we consider whether there are any risks of significant weakness in the Council's arrangements. We have not identified any risks of significant weakness in the Council's arrangements from our work to date.

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	18,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the planned fee for this work is £18,400 in comparison to the total fee for the audit of £64,666 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 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 Council does not currently have an accounting policy on asset componentisation and does not apply componentisation when depreciating its assets.	We recommend that management agree an accounting policy for asset componentisation and use this as the basis for depreciation calculations in future years. **Management response** *Response to follow*
	The Council's infrastructure assets include two steel footbridges which are almost fully depreciated as at 31 March 2022. We understand that the most recent technical assessment of the bridges has concluded that they continue to be in good condition, but did not provide an estimate of future useful life.	As these assets will soon be fully depreciated the Council will need to re-assess their useful asset life at that point. We recommend the Council investigate how best to arrive at an appropriate estimate to support its depreciation calculations. **Management response** *Response to follow*

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 the following issues in the audit of the Council's 2020-21 financial statements, which resulted in recommendations being reported in our 2020-21 Audit Findings report. We record here our follow-up on the implementation of these recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The statutory accounting requirements per the CIPFA code include the use of a Capital Grants Unapplied Account. The Council does not include a Capital Grants Unapplied Account in its financial statements. We recommended 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 performed an assessment to identify balances meeting the criteria for classification as capital grants unapplied as part of yearend closedown procedures. As the balance was not material the accounts were not adjusted.
✓	Management presented its draft financial statements to the 28 July 2021 Audit Governance and Standards Committee. 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. 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.	The Council published its draft accounts on 18 July 2022. The 2021-22 financial statements have not been re-published.
✗	The balance for heritage assets included £9,090,000 representing 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". 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 have reviewed this balance and the relevant underlying museum records. They have concluded that there is no clear trail to support the historic valuations for many of the museum exhibits previously included on the balance sheet. Management now propose to update the figure in the financial statements using information from the Council's Collections Management System. However, many of the valuations recorded on this system also date from many years ago and therefore it is unclear if they are current. We are discussing with management how far the records per the Collections Management System will support the inclusion of valuations in the 2021-22 financial statements.

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 2022.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000
Long term Debtors Short term Debtors A calculation to split debtors between short and long term was incorrect leading to an overstatement of the long-term debtor balance and an understatement of the short- term creditor balance by £2.13m.		(2,130) 2,130	
PPE Investment Property An amount of £1,109k relating to Springfield Mill had been classified as PPE Assets Under Construction but should have been classified under Investment Property.		(1,109) 1,109	
Heritage Assets Revaluation reserve In 2021-22 management proposes to use different valuation records to support the valuation for museum exhibits included in the financial statements. The impact is to increase the balance by £5.725m. We are currently discussing the appropriateness of this adjustment with management.	(5,725)	5,725 (5,725)	(5,725)
Carry forward total	(5,725)	0	(5,725)

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
Brought forward total	(5,725)	0	(5,725)
CIES: Cost of Services CIES: Taxation & Non-Specific Grant Income Covid 19 grants totalling £1.259m had been accounted for as specific grants but should have been accounted for as non ring-fenced grants and therefore disclosed at the line for Taxation & Non-Specific Grant Income.	1,259 (1,259)		
Total	(5,725)	0	(5,725)

C. Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021-22 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.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000	Reason for not adjusting
PPE		(211)		
Revaluation Reserve	211	211	211	
We identified 11 assets where the value included on the fixed asset register and in the financial statements differed from the external valuer's report. In aggregate PPE assets were overstated by £211,000.				Management consider the issue is not material. Error corrected in 2022-23 GL
Capital Grants Receipts in Advance		391		
Grant Income	(391)			
Revenue Appropriation	391			Management consider the issue is not material. Error corrected in 2022-23 GL
Capital Grants unapplied		(391)		
The financial statements include a balance of £9,000,000 for Capital Grants Received in Advance. An amount of £391,000 included in this balance should have been classified as Capital Grants Unapplied.				
Overall impact	211	0	211	

Impact of prior year unadjusted misstatements

The only prior period adjustment related to a valuation error; the valuation for one investment property (Parkwood - Integra) was understated by £211,000. As this property has been revalued in 2021/22 there is no impact to be considered for our work on the 2021/22 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 issue	Adjusted?
Note 1 Expenditure & Funding Analysis The EFA provides a reconciliation between the financial outturn reported to members and the closing General Fund balance per the CIES. On the EFA the financial outturn reported to members is at the column "Net expenditure chargeable to General Fund". Although the total at this column was correct, the analysis in the column was incorrect, as total expenditure at the line for "Communities Housing and Environment" had been misstated by £1,687,000 with an off-setting misstatement at the line for "Other Income & Expenditure".	✓
Note 1 Expenditure and income analysed by nature This note includes totals for gross income and gross expenditure which should reconcile to the CIES. Although the net total ("surplus/deficit on the provision of services") did agree to the CIES, there were unreconciled differences at the level of gross income and gross expenditure of approximately £300,000.	X
Note 15 Capital Grants received in advance At note 15 the lines "Grants received" and "Funding used for Capital Expenditure" are understated by £137k. There was no net impact on the balance for capitals grants received in advance.	✓
Note 16 Related Parties The note disclosure stated that the amount payable from Maidstone Property Holdings at yearend was £359k. The correct value was £545k.	X
Note 17 Property, Plant and Equipment Upon reconciling the external valuers report to the Fixed Asset Register we identified one asset (Trinity Foyer) with a value of £1.4m which had been misclassified as operational land and buildings (OLB) as the valuer had deemed this asset still under construction (AUC) at yearend. No impact on final year-end closing Total PPE balance – adjustment to the OLB and AUC classification totals was required.	✓

C. Audit Adjustments

Disclosure issue	Adjusted?
Note 18 Investment properties As series of adjustments were required to the analysis in the columns for "Investment Properties" and "Assets Under Construction". In the column for "Investment Properties" an amount of £1,903,000 originally classified as Additions should have been disclosed under Transfers. In the column for "Assets Under Construction" the amounts disclosed at the lines for Additions and Transfers had both been misstated by £2,337,000.	✓
Note 20 Financial Instruments We identified that management had incorrectly used the 'premature repayment rate' when computing the fair value of long-term loans. The rate that should have been used was the 'new loans rate'. As a result the fair value for loans disclosed at Note 20 was overstated by £1.4m.	✓
Note 20 Financial Instruments and Note 23 Debtors At Note 23 Debtors the total at the line "Other entities and individuals" had been overstated by £1,339,000 and other lines understated by an equivalent amount. This error also had an impact on Note 20 Financial Instruments, where the total for financial assets had been overstated by £1,339,000.	✓
Note 25 Creditors Note 25 included a line for "Other local authorities" – this has been amended to "Other public sector bodies". Amounts due to Kent CC had been included at the line "Other entities and individuals". It was agreed these amounts would more properly be disclosed at the line for "Other public sector bodies". The amounts involved are as follows: "Other public sector bodies" Increase by c. £9m in PY and £14m in CY "Other entities and individuals" reduced by c. £9m in PY and £14m in CY	✓

C. Audit Adjustments

Disclosure omission	Adjusted?
Note 26 Provisions 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 £168k.	✓
The financial statements were first published in July 2022. Our audit work was performed on a revised set of accounts received in January 23. We noted that the following disclosures were not updated from previous versions: • Note 31: Capital expenditure and capital financing • Note 35: Cash Flow Statement – Adjustments made to Net Surplus or deficit on the provision of services for non-cash movements.	✓
Note 35 and 36 Cash Flow statement At these notes the following prior year figures were incorrect; Note 35 - Derecognition of NCA – reported value = £3851k, correct value = 5805k Note 36 - Capital Grants credited to surplus - reported value = £5791k , correct value = £5051k Note 36 - Proceeds from sale of PPE - reported value = £1962k , correct value = £3551k	X **Management has agreed to adjust – to be included in the next version.**
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	£64,666*	TBC
Total audit fees (excluding VAT)	**£64,666**	**TBC**

The proposed fee for the audit reconciles to Note 14 in the financial statements.

*This fee excludes any work to assess the impact of the Kent Pension Fund triennial revaluation on the pensions disclosures in the financial statements. We estimate the additional fee associated with this work will be £6,000.

Non-audit fees for other services	Proposed fee	Final fee
Housing benefit subsidy claim	£18,400	TBC
Total non-audit fees (excluding VAT)	**£18,400**	**TBC**

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