APPENDIX 1

Grant Thornton

The Audit Findings for Medway Council

Year ended 31 March 2019

July 2019

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

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Medway Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 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 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 (AGS) and 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 commenced on site in June. Our findings are summarised on the following pages. We have not identified any adjustments to the financial statements which would result in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments in relation to classification and disclosure errors are detailed in Appendix C. We identified three unadjusted errors which are not material individually or in aggregate. Management have not amended the accounts in respect of these errors. Details of the errors are set out in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the satisfactory resolution of the outstanding matters detailed on the following page. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinions will be unmodified. Our proposed opinions are subject to the satisfactory resolution of the outstanding matters outlined on the following page.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Medway Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 21.
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 powers or duties. We have completed the majority of work under the Code but we cannot formally conclude the audit and issue our completion certificate until we have completed the work necessary to issue our whole government Accounts assurance statement .

Acknowledgements

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

Summary

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

We have not had to alter or change our Audit Plan, as communicated to you on 21 March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 29 July 2019, as detailed in Appendix E.

- receipt and review of supporting documentation for items sampled for testing in respect of operating expenditure, debtors, creditors, REFCUS, income and expenditure cut-off testing,
- review the proposed pension amendments to the primary statements and notes to the accounts
- receipt of management representation letters;
- review of the final sets of financial statements;
- complete our accounts closing procedures
- complete our work necessary to issue our whole government Accounts assurance statement; and
- final audit manager and engagement lead review of the work performed on the audit file and satisfactory follow-up and resolution to any queries raised.

We currently concluding our review of the following areas: Financial instruments note, Capital expenditure and financing, accounting disclosures, REFCUS, LOBOS, NDR appeals provision.

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. Materiality calculations remain the same as reported in our Audit Plan.

Our assessment of the value of materiality has been adjusted to exclude the one-off material gain on disposal of non-current assets in 2017/18 included within 'Other operating expenditure'. We detail in the table across our determination of materiality for Medway Council.

	Council Amount (£)
Materiality for the financial statements	10,100,000
Performance materiality	7,070,000
Trivial matters	505,000

Audit findings – Significant risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** *Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for Council Tax, Business Rates and Grant Income streams, because there is little incentive to manipulate revenue recognition;* • *opportunities to manipulate revenue recognition are very limited;* • *the culture and ethical frameworks of local authorities, you, mean that all forms of fraud are seen as unacceptable.* *Therefore we do not consider this to be a significant risk.* *However, we have not deemed it appropriate to rebut the presumed significant risk for material streams of fees and charges revenue, due to the scale of financial pressures experienced by the Authority, which increase the risk of material misstatement from improper revenue recognition.*	**Auditor commentary** We have: • evaluated the Authority's accounting policy for recognition of income from fees and charges for appropriateness and compliance with guidance issued by CIPFA; • reviewed the Authority's response to implementation of IFRS 15 'Revenue From Contracts with Customers', as interpreted by CIPFA; • documented our understanding of the Authority's system for accounting for income from fees and charges, and evaluate the design of the associated controls • agreed, on a sample basis, income and year end receivables from fees and charges to invoices and cash payment or other supporting evidence. Our audit work is substantially complete. We have not identified any issues in respect of your income from fees and charges.

Audit findings – Significant risks

	Risks identified in our Audit Plan	Commentary
2	**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. You face external scrutiny of your 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 transactions outside the normal course of business, as a significant risk of material misstatement.* .	**Auditor commentary** We have: • documented the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work identified the following in respect of journals testing. No audit evidence could be provided to demonstrate that a key management control was operating as designed. On receipt of journals from directorates into the 'receipt inbox', members of the Finance team carry out a review of the journals for appropriateness, separation of duties and authorisation within directorates, prior to approving the journals within the 'ready for processing' inbox for other members of the team to post the journal into the ledger. In addition, testing of a sample of journals identified the following which did not comply with your control procedures: • 5 journals were raised and authorised by the same individual with no evidence of separation of duties; • 3 journal internal recharges were incorrectly accounted for as income within the financial statements. Our review of the above journals did not identify any evidence of management over-ride of controls. We understand that a new system of electronic journal processing and approval is due for implementation in the later half of 2019 which will address the type of control failures identified above. We will follow up and review the journal processing and approval procedures in 2019/20..

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** *You revalue your Council Dwellings and Other Land and Buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£506 million includes Council Dwellings and Other Land and Buildings as at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.* *Additionally, you need to ensure that the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, for assets which have not been revalued in any given year.* *We therefore identified valuation of Council Dwellings and Other Land and Buildings, particularly revaluations and impairments, as a significant risk of material misstatement*	**Auditor commentary** We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to ensure that they have been input correctly into your asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. On page 8 we have set out our findings of the valuation of council house dwellings. The total council housing portfolio was revalued in the year. Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision and non specialised assets that are valued at existing use in value (EUV). You used your internally qualified RICS valuer to complete the valuation of these assets es.as at 31 March 2019 on a five yearly cyclical basis. 44% of Other land and buildings was revalued during 2018/19. The valuation of properties valued by the In-house valuer has resulted in a net increase of £44.9m. The total year end valuation of Other land and buildings was £362.8m, a net increase of £21.6m from 2017/18 (£341.2m). The Code of Practice allows a rolling programme of revaluation over a short period, but does place a requirement on management to consider and ensure that assets not revalued in year are not materially misstated. Management prepared an asset impairment review to see if any unrevalued assets ought to be revalued based upon local knowledge. However, management's working paper was not sufficiently detailed to allow us to test for reasonableness. In the absence of a detailed management working paper , we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert.

Audit findings – Significant risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of land and buildings** *continued*	**Auditor commentary** Our own estimate of the possible total increased movement of the unrevalued assets was above our performance materiality but below total materiality, at an estimate of £8.3m. Through further discussions with the internal valuer we were able to agree that some of these point estimates may be at the upper end of potential value movements when local circumstances were taken into account (particularly for schools). Therefore, through this additional investigation we concluded that assets not revalued during the year are still materially correctly stated as at 31 March 2019. We have recommended that management strengthen future working papers in this area to provide a detailed assessment that can be audited. Our audit work is substantially complete and has not identified any material issues in relation to this risk.
4	**Land and Buildings – Council Dwellings - £167m as at 31 March 2019**	**Auditor commentary** The Council own 3,006 dwellings held within your Housing Revenue Account and are required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. You have used your internally qualified RICS valuer to complete the valuation of these properties. The year end valuation of Council Dwellings was £167.1m, a net increase of £2.2m from 2017/18 (£164.9m). We concluded: • the In-house valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • we note two PPE disclosures were omitted from the daft accounts namely Capital Commitments and rolling programme of revaluations carried at cost or valuation over a 5 year span. We discussed this with management and the additional notes will be included in the updated accounts. Our work in this area remains ongoing. From the work performed to date, no material issues have arisen in relation to the valuation of your housing stock included within the accounts.

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
5 **Valuation of pension fund net liability** *Your pension fund net liability, as reflected in the 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 (£278 million in the notes to the balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.* *We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement.* .	**Auditor commentary** We: • gained an understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an 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 pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm 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 auditors of Kent County Council 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. We report our findings of the assessment of the actuary and on our work around the financial assumptions used by the actuary on the key judgements and estimates at page 10. Impact of the McCloud transitional protection pensions ruling The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was refused in late June 2019. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. Management requested estimates from their actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in past service cost and overall pension liabilities of £5.6m and the possible impact on Cost of Services of £0.6m Management's view is that the impact of the ruling is not material for Medway Council and will be considered for future years' actuarial valuations. The accounts presented for members' approval do not include an adjustment for this matter. In conjunction with auditor's experts, we reviewed the analysis performed by Barnett Waddingham to consider whether the approach that has been taken to arrive at these estimates is reasonable. No issues were noted in this review. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we note the amount involved is not material. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. We have included this as an uncertainty and an unadjusted error within Appendix C Aside from this, and subject to the satisfactory completion of outstanding work set out on page 4, we have not identified any material issues in respect of the valuation of the pension fund net liability which are necessary to report to those charged with governance.

Audit findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £261m	Your net pension liability at 31 March 2019 is £261m, before consideration of the impact of the McCloud pensions ruling outlined elsewhere in this report (PY £277m). The Council used Barnett Waddingham to provide actuarial valuations of its assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The next full actuarial valuation will be carried out in 2019. A roll forward approach from the last valuation in 2016 has been used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £7.8m net actuarial gain during 2018/19.	See below	**Green**

Audit Comments:

- We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2018/19 roll forward calculation carried out by the actuary. Our work in this area is in progress.
- We have used an auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

Assumption	Actuary Value	Auditor's expert range	Assessment
Discount rate	2.40%	2.35% - 2.45%	
Pension increase rate	2.40%	2.40% - 2.45%	
Salary growth	3.90%	CPI (2.35% - 2.45%) + 1.50%	
Longevity at 65 current pensioners Male	23.1	20.6 – 23.4yrs	
Longevity at 65 current pensioners Female	25.2	23.2 – 24.8yrs	

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2018/19 to the valuation method.
- Reasonableness of increase in estimate – our work confirms that the increase in the IAS 19 estimate is reasonable.

Other than the items referred to on page 8 of this report, our audit work has not identified any significant issues in relation to the pensions disclosure. The actuarial assumptions made by Barnett Waddingham LLP and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Barnett Waddingham LLP were reasonable following discussions with the Council. In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to the Council's circumstances.

Assessment

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

Audit findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £13m	The Council is responsible for repaying a proportion of successful rateable value appeals. The calculation for the provision is performed internally by the team responsible for monitoring Business Rates collection across the area. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision included within the accounts has increased significantly in 2018-19 due to you taking part in the Business Rate Retention Scheme across London, which whilst increasing the level of income you receive, also means you take on more of the risk of non-collection.	We reviewed: • appropriateness of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against peers/industry practice • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. Our audit work is substantially complete. Our work to date has not identified any issue in the key judgements and estimates applied.	Green
Going concern	Your accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	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). We have reviewed in detail your 2019/20 budget and Medium Term Financial Strategy and have assessed the underlying assumptions and dependencies to be reasonable. We have also reviewed management's cashflow forecast up to 31 July 2020. You hold £22m of useable general fund reserves as at 31 March 2019. Medway Council has a reasonable expectation that services it provides will continue for the foreseeable future. We do not consider there to be a material uncertainty which could cast doubt on your ability to continue as a going concern. We are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2019.	Green

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £362.8m	Other land and buildings comprises of specialised assets such as schools and libraries, 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. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. You have used your internally qualified RICS valuer to complete the valuation of these properties.as at 31 March 2019 on a five yearly cyclical basis. 43% of total assets were revalued during 2018/19. The valuation of properties valued by the In-house valuer has resulted in a net increase of £44.9m. The total year end valuation of Other land and buildings was £362.8m, a net increase of £21.6m from 2017/18 (£341.2m).	We • assessed the In-house valuer to be competent, capable and objective. • carried out completeness and accuracy testing of the underlying information used to determine the estimate, and have no issues to report. • assessed valuation method remains consistent with the prior year. • confirmed the consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate. • agreed the valuation report to the fixed asset register and the financial statements • The In-House Valuer has valued components of Other land and buildings (OLB) however the basis of the components isn't documented. Our audit work is substantially complete. Our work has not identified any issue in the key judgements and estimates applied. Our assessment of valuation of land and buildings and Council Dwelling are set out on pages 7 and 8.	● **Green**

Assessment

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

Audit findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
❶	Deficit Reserve of £4.146m within the Earmarked Reserves balances in respect of the Dedicated Schools Grant deficit – Note 20 Movement in Earmarked Reserves	• From 2018/19, all local authorities with a cumulative Dedicated Schools Grant (DSG) deficit of 1% or more at the end of the financial year must submit a recovery plan to the Education and Skills Funding Agency, showing how they will bring the deficit into balance in a three year time frame. • A Joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020/21 budget round and 2019/20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018/19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits.	**Auditor view** • Our view is that where overspends arise against Dedicated Schools Grant and are to be carried forward as a call against the schools budget in future years, these should form part of the un-earmarked general fund. • We discussed the Council's current accounting treatment with management. Whilst the use of a negative earmarked reserve is not good practice, the net Usable Reserves position is appropriately stated. We concluded on that basis that the Council's Usable Reserves are properly stated and that as such a user of the financial statements will be able to take an informed view of the Council's overall level of balances and reserves based on the information within the statements. • We will discuss the accounting treatment with management in respect of future years once CIPFA confirm their expected treatment or any further guidance is issued either by CIPFA or the Department of Education. We also requested that management enhance the disclosure of the accounting treatment within their financial statements. **Management response** • The joint statement issued by the DfE and CIPFA in June 2019 was very clear that "the DfE does not therefore expect or require any DSG deficits to be funded from a local authority's general resources." Our view therefore is that the negative DSG balance should not be offset against the General Fund balance, as it will actually be a first call on DSG income in the new financial year. As the balance falls below the materiality threshold, we do not intend to amend how this figure is shown on the face of the Movement in Reserves Statement. Our approach will be reviewed in the light of more definitive guidance, should the CIPFA LAAP revisit the matter.

Audit findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	
2	Revenue expenditure funded from Capital under Statute (REFCUS) of £13.2m Note 35 Capital Adjustment Account	• We note the cost of the digital transformation Programme of £2.67m (last year of the three-year programme) has been funded from Revenue expenditure funded from Capital under Statute rather than recorded in the relevant service revenue line in the Comprehensive Income and Expenditure Statement.	**Auditor view** • We have an uncertainty over £2.7m of REFCUS which in our view does not meet the Code requirement. In our view, expenditure incurred in relation to the transformation project should be recorded in the relevant service revenue line in the Comprehensive Income and Expenditure Statement. We discussed the Council's current accounting treatment with management. Whilst the treatment isn't Code compliant, the value isn't material to the user of the accounts. • We recommend in future that management review all expenditure funded through Revenue expenditure funded from Capital under Statute against the Code requirement. **Management response** • The decision to fund a one-off programme of transformational change through the capital programme and funded from prudential borrowing was taken by the Council prior to the DCLG issuing its statutory guidance on the flexible use of capital receipts. At the time the decision was taken, it was justified under the Practitioner's Guide to Capital Finance in Local Government 2019 Edition (Chapter 2 section on REFCUS), which states that: "Special arrangements exist in local government for the secretary of state to extend the definition of capital expenditure for one of two purposes: to recognise that some of the expenditure incurred by an authority has a wider, lasting public benefit than is reflected in the accounting rules for non-current assets…." The previous auditor raised no concerns over such expenditure featuring in the capital programme, funded from borrowing, and as this £2.667million represents the final year of a three year scheme and falls below the materiality threshold, we do not intend to amend how this figure is treated in our 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
1	**Matters in relation to fraud**	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	• We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to your bankers and investment institutions. This permission was granted and the requests sent. • We have received all confirmations. There are no issues arising other than the misclassification of investments between short and long term investments. Refer Appendix C for details.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided except where noted elsewhere in this report.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. The narrative report is balanced and largely covers the expected content as per the Code of Practice. A potential area for future improvement is a reporting of performance or a relevant cross reference to show achievement against corporate objectives. Pending receipt of an updated version of the Narrative Report with agreed amendments we plan to issue an unmodified opinion in this regard.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • If we have applied any of our statutory powers or duties. We have nothing to report on these matters. Management made a small amendment to the AGS following review by audit.
3	**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. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is underway, and will be completed in advance of the deadline of 13 September 2019.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of Medway Council in the audit opinion, as detailed in Appendix E,

Value for Money

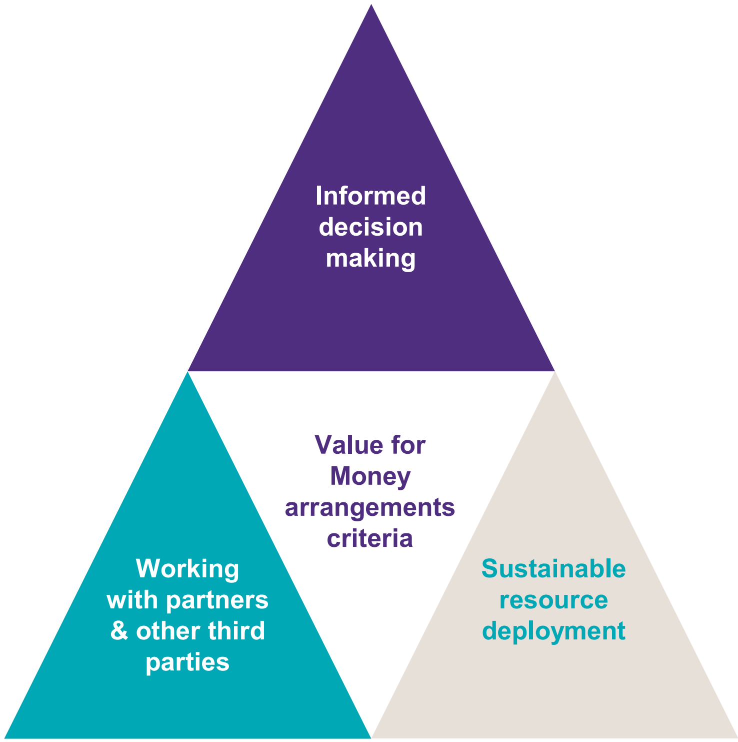
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January and February 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 11 March 2019.

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

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

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial outturn for 2018/19;
- Budget for 2019/20;
- Medium Term Financial Strategy 2018 - 2023, including underlying assumptions and forecast savings plans;
- Council Plan.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 19.

Additionally, we considered the results from regulatory bodies including Ofsted. You had a focused visit of your children's services by Ofsted in February 2019. The review focused on your arrangements for responding to contacts and referrals at their 'front door', the First Response Team. The inspection team commented positively on a number of improvements since the previous visit in June 2018 including response to contacts and referrals and multi-agency working and information-sharing. The report also highlighted specific improvement areas including the quality of assessments, and the timeliness of initial visits to children and their families.

Your next Ofsted ILACS Standard Inspection of their children's social services is currently underway with the report to be issued in August 2019. We will consider the results from the visit in our 2019/20 Findings Report.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

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

	Significant risk	Findings and Conclusion

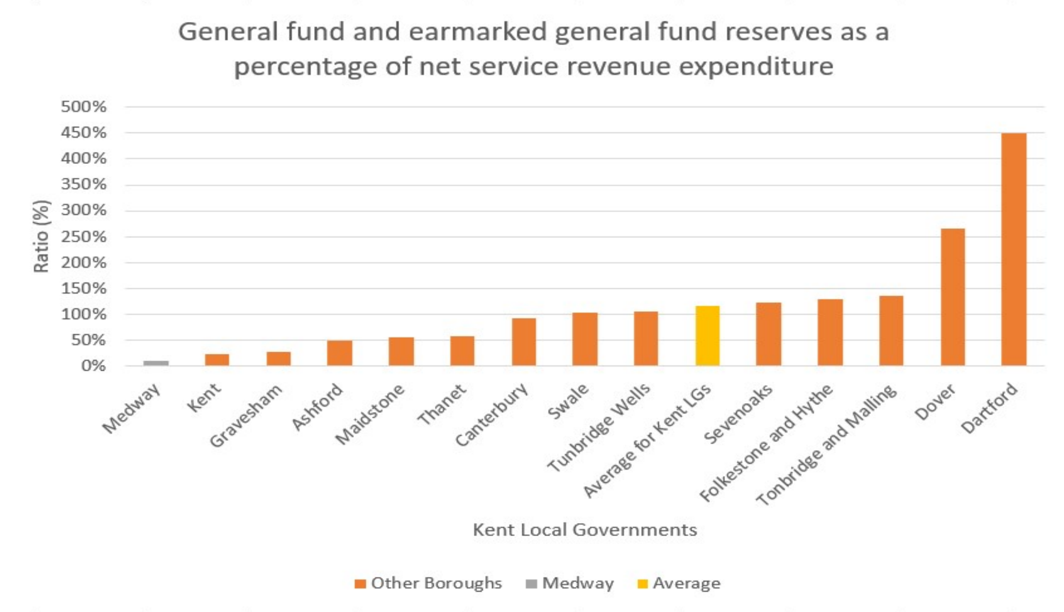
1	**Financial sustainability**
	
	As reported in our Audit Plan
	
	At the end of quarter 3 of 2018/19, you were forecasting an adverse variance to budget of £2.9 million. At the time, the variances ranged from £2.8 million adverse within Children and Audit Services to a favourable variance of £1 million within Business Support Department. The most significant budget pressure at the time was within Children Services (£1.9 million) largely due to increasing number of placements.
		• In 2018/19 you reported a net revenue overspend of around £2 million, however windfalls from better than budgeted income levels allowed you to successfully absorb the overspend.
		• Additionally, the windfalls enabled the Council to defer £1.2 million of planned use of reserves and make a further contribution to reserves of £2.8 million during the year. Management recognise reliance on one-off gains isn't sustainable in the short to medium term, sharing these concerns with Cabinet in June 2019 as part of the Revenue and Capital Outturn report for 2018/19.
		• The latter report clearly highlights for Councillors, the key budget pressures faced during the year which aren't dissimilar to those faced by many councils. The most significant overspends you incurred included:
		    • Children's services overspent by £2.8 million;
		    • Adult social services overspent by £0.5 million;
		    • Parking services overspent by £1.8 million.
		• During the year, you also achieved underspends across a number of divisions which offset the above overspends. The underspends were across Environmental services, Central finance, Housing Revenue Account and Strategic finance. Whilst the underspends were largely attributable to one-off events such as release of provisions, higher collection of debts, cost of not filling vacancies, some of the savings within Strategic Housing can be attributable to service improvement and transformation of services. This bodes well for the future as service redesign across the Council will generate recurrent savings year on year with less reliance on one-off savings.
		• In the last three years, you delivered £7 million savings described as transformation savings. The focus has been largely a digital transformation of services and the saving shave been incorporated in directorate base budgets. 2018/19 was the final year of the savings plan where you delivered the final £3 million. Whilst the level of savings achieved is commendable, the element of the digital transformation savings assessed as recurrent was circa £1.1 million.
		Summary
		• Overall, the achievement of your in year financial targets was as a result of a number of key factors including income receipts being greater than planned. You recognise some of the factors were non recurrent and reliance on these is not sustainable in the short to medium term.
		• Demand for Adult and Children services are likely to continue their upward trajectory and as such, continue to place an element of risk to your 2019/20 plans should similar levels of overspends arise.

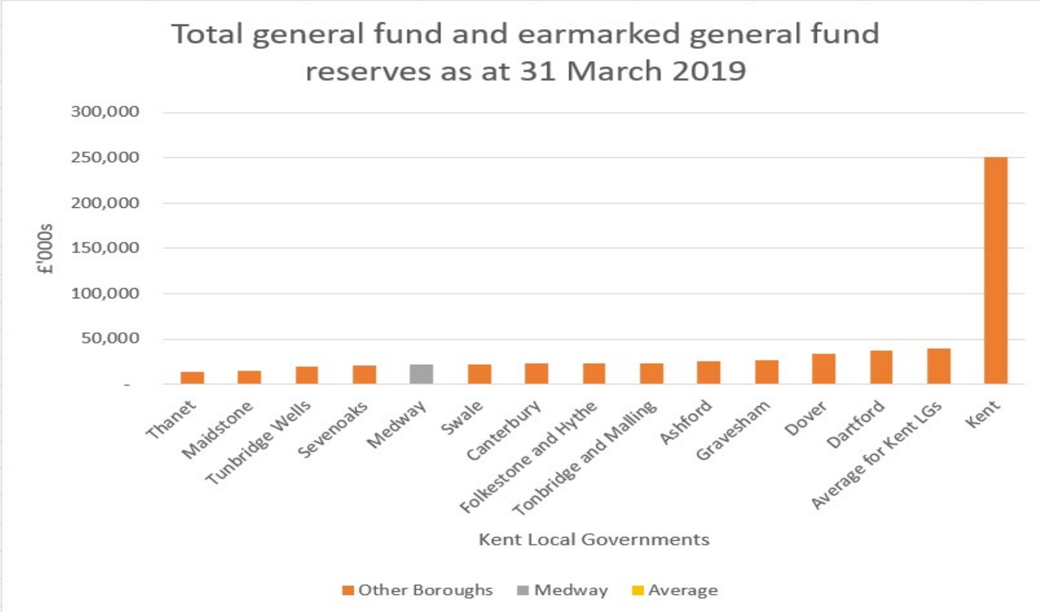
Key findings

Significant risk	Findings and Conclusion
❷ **Medium Term Financial Planning** *As reported in our Audit Plan* *In the context of tightening central government funding over recent years and rising demand for your services, you have identified the need to close a revenue budget gap of £16 million over the next four years. You will be required to make significant savings in areas where these have not previously been necessary. Additionally, with the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you.* .	• You have set a balanced budget for 2019/20 and the detailed planning in respect of 2020/21 is already underway. This is part of the wider process of reviewing your Medium Term Financial Strategy, which will begin more thoroughly in July. • In respect of 2019/20, the Council in February 2019 approved raising council tax up to the 3% referendum limit. Your initial plan had a deficit plan of £4.4 million largely driven by demand-led pressures within Adult Social Care and Children's Services. Work continued during the second half of 2018 to identify savings, efficiencies and income generating measures. You were able close the gap resulting in the full Council approving a balanced 2019/20 budget in February 2019. • In closing the gap, the measures included challenging divisions to achieved greater levels of savings totalling circa £3 million including a transformation savings stretch target of £0.8 million. Delivery of your 2019/20 financial budget assumes100% delivery of your savings plans. • Demand-led services such as Adult and Children services will continue to pose a significant challenge to achieving your 2019/20 financial target. In setting your divisional budgets, you have taken steps to reset the base budget for both Adult Social Care £1.4 million and Children's Services £2.3 million. Additionally, you made provisions of £1.1 million for growth in demand as well as inflationary cost of services of £1.7 million. • You are also taking steps to invest in recruiting more social workers, improving your contribution to the Better Care Fund and allocating additional grant funding announced by the Chancellor to the service. You are pragmatic and recognise that despite these measures, the funding will fall short of what is required. You continue to challenge your teams to develop improvement programmes that will deliver significant savings and contribute to the Council's wider transformation agenda. • You clearly understand the impact of your savings plans to your overall financial balance. The Transformation Board (TB) is responsible for the overall strategy and direction and has representation from the senior leadership board. The savings target for 2019/20 was set at £2.1 million and at the time of our review (May 2019), this had been increased with a stretch target of £3 million. Of these, £2.1 million have worked up business case and plans were being worked by teams for the balance. Starting the financial year without having identified how all the required savings will be achieved, does increase the risk of non delivery of the agreed budget. • Regular monitoring of progress on business cases and delivery is reported back to the TB and as part of Council quarterly Revenue and Capital Outturn reports. Our review took place mid way through the first quarter so it was not possible for us to review and comment on the effectiveness of the arrangements. • Your 2018 – 2023 Financial strategy reflects reasonable assumptions around inflationary pressures, aging demographics, increasing population growth and the demands it will place on your existing services. A growing problem nationally is around recruitment and retention of social care staff and expensive agency staff costs on already limited budgets. You are responding to this challenge with the innovative social care academy, providing skills training, qualifications and progression opportunities to help grow and retain excellent social care workers.

Key findings

Significant risk	Findings and Conclusion
❷ **Medium Term Financial Planning** *- continued* .	• The Council has sufficient reserves available to manage the projected financial deficits over the MTFP period up to 2023. Total usable reserves as at 31 March 2019 were £40.5m (excluding schools) of which £22m is held as General Fund Reserves available to help sustain the Council's financial position. The Strategic Reserves are equivalent to 7.6% of the net cost of services in 2018/19. Your 2019/20 budget plan does not include the use of your reserves to balance the budget. • Your reserve levels as a percentage of your expenditure are below average when compared to other Councils within Kent region. Similarly, your level of total general fund and earmarked reserves are below average within Kent. (see graphs below). • There are currently sufficient Earmarked Reserves to continue to cover the current projected deficit up to 2022/23 (£16.3m). However, the Council rightly recognises that failure to address the underlying deficit over the MTFP period could lead to its inability to set a balanced budget in future years.





Summary

- You have set a balanced budget for 2019/20 and the detailed planning in respect of 2020/21 is already underway.
- Your planned savings target are ambitious and are predicated on your achieving your 2019/20 financial target. If you experience similar levels of overruns in 2018/19 from Adult and Children services, you may have to use your reserves to achieve financial balance.
- Starting the financial year without having identified how all the required savings will be achieved, increases the risk of non delivery of the agreed budget.
- Your levels of general fund and earmarked reserves are below the average when compared to other Kent Authorities.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E

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 which were chargeable from the beginning of the financial year to 29 July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats

	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit subsidy claim certification	30,000	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 low in comparison to the total fee for the audit of £93,497 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.
Certification of Housing Capital Receipts Grant	3,200	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 low in comparison to the total fee for the audit of £93,497 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.
Teachers' Pension return certification	4,200	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 low in comparison to the total fee for the audit of £93,497 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.
Non-audit related			
None			

These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been / will be approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 4 of 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 2019/20 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
1	●	• We note the cost of the digital transformation programme of £2.67m (last year of the three-year programme) has been funded from Revenue expenditure funded from Capital under Statute rather than recorded in the relevant service revenue line in the Comprehensive Income and Expenditure Statement	• We recommend in future that management review all expenditure funded through Revenue expenditure funded from Capital under Statute against the Code requirement. **Management response** • We will carry out a review of all capital expenditure badged as REFCUS to ensure it complies with the Code requirement by 31 March 2020.
2	●	We undertook a review of your IT general controls and made 4 medium priority recommendations around the following areas: • Lack of segregation of duties between security administration and business management • Proactive reviews of logical access within Northgate iWorld • Lack of documented batch administration policies and procedures • Change control over Northgate iWorld and Integra batch jobs and schedules	• Management have responded and agreed to the recommendations. **Management response** • Agreed
3	●	• A significant proportion of the senior officer remuneration, remuneration bands >£50k and exit package notes were inconsistent with underlying evidence. The disclosure was restated in its entirety	• As part of the 2019/20 closedown, HR/Payroll related disclosure should be subject to senior officer review for consistency with supporting evidence **Management response** • There is a new payroll management structure in place and this year within transformation programme being carried out, a review of reporting will be undertaken.
4	●	• Through further discussions with the internal valuer we were able to agree that some of these point estimates may be at the upper end of potential value movements when local circumstances were taken into account (particularly for schools). Therefore, through this additional investigation we concluded that assets not revalued during the year are still materially correctly stated as at 31 March 2019.	• Management should strengthen future working papers for assets not revalued in the year to provide a detailed assessment that can be audited. **Management response** • More detailed commentaries will be included in future revaluation / impairment reviews.

Controls

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

Follow up of prior year recommendations

Your previous auditor identified the following issues in the audit of Medway Council's 2017/18 financial statements, which resulted in 11 recommendations being reported in the 2017/18 Audit Findings report.

	Assessment	Recommendations previously communicated	Management update on actions taken to address the issue
1	✓	All valuation calculations are subject to second review within the valuation team and valuation movements are reviewed for reasonableness alongside the movement in similar assets revalued	The responsible team for preparing Asset valuations will implement the following going forward: • One RICS registered valuer will oversee the whole and all valuations will be peer reviewed by another member of the team. • Each valuation will be checked against the previous valuation of the asset for percentage change to see if this seems reasonable, and with revalued assets of the same type for consistency. • The team will use a common range of comparable for land values, costs, and age/obsolescence adjustments in order to give a consistency of approach. **Auditor comment**: Complete
2	X	Log of exit packages information is maintained by HR and/or payroll team which provides relevant disclosure information such as date agreed, date paid and amount etc. We also recommend that the financial accounts team provides necessary guidance on Code requirements to the payroll team and ensures exit packages disclosure is on the basis of packages agreed during the year.	Technical Team has liaised with the Finance Operations Manager/HR to find out whom can supply the correct information. **Auditor comment**: We experienced delays in receipt of information maintained by HR and/or payroll. Review of supporting evidence identified a significant number of disclosure amendments including exit packages. This suggests further work is required to strengthen the review process prior to publishing the draft statements.
3	✓	During the financial statements preparation for 2018/19 year management revisit the disclosure misstatements identified in the 2017/18 year to ensure that no similar misstatements present.	Misstatements were brought to the attention of those officers responsible for those areas affected to ensure that the same issues were avoided for 2018/19. **Auditor comment**: Our review did identify some minor disclosure omissions. See Appendix C

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations - *continued*

	Assessment	Recommendations previously communicated	Management update on actions taken to address the issue
4	✓	Expenditure schedules identified as being REFCUS be subject to second review within the financial accounts team, and this review should incorporate comparison to prior year projects where expenditure had already been recognised in REFCUS in the prior year to ensure that similar expenses in the current year are also recognised in REFCUS. Any expenditure relating to schools should be checked to ensure that they have not gained Academy status during the year.	We agreed a way forward with Grant Thornton for 2018/19 onwards. If a school is still maintained as at the end of March, then capitalisation should take place as usual. If the school is likely to convert in the future, then this should be disclosed within the Statements. All expenditure to be capitalised will be checked as part of the allocation throughout the year to avoid undue pressure at the year end. **Auditor comment**: Our review did not identify identified some issues around REFCUS expenditure, see page 12 and the recommendation in Appendix A
5	✓ **Partly**	Positive confirmation is obtained from the property team confirming the existence of all property assets at the year-end. We also recommend that review of this information is incorporated into the financial accounts close procedure.	We will request information from property prior to the year end to determine any assets subject to demolition. This has been added to the year-end timetable as an action point. **Auditor comment**: Our review of PPE existence indicate this recommendation was partly addressed.
6	**In progress**	That bank reconciliations for all bank accounts are prepared and reviewed by an appropriate officer on a timely basis.	A new process has been implemented in July 2019. The delay in implementation was due to a number of staff vacancies within the team responsible. **Auditor comment**: We will follow up in 2019/20.
7	✓	Check is completed to identify actual settlements made during the year against successful NDR appeals so that required information is readily available for the financial statements purpose	This was Implemented by the target date and involves a detailed line by line analysis comparing appeals outstanding at the beginning of the financial year with those at the end. This procedure identifies new, withdrawn and settled appeals and from this, key financial information including amount charged to provision and amounts to be added to it can be identified. **Auditor comment**: Agreed
8	✓	Democratic Services works with the Finance Department to develop a process of capturing accurate declaration of interests during the year and at the year end.	The register of members interest was obtained alongside returns from each member. The disclosures in the Statement. **Auditor comment**: Agreed.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations - *continued*

	Assessment	Recommendations previously communicated	Management update on actions taken to address the issue
9	✓	Formal process is put in place to set up new users and remove users from the Bankline system. A signed user form should be developed, which must be signed by the user's line manager, which could also be used to inform changes such as removing users. A check should be completed on a monthly basis to compare the leavers list supplied by payroll/HR to any active users on the system.	There has been a review of users on a regular basis to ensure leavers are removed. Where new staff are added who can input/authorise data this is raised by way of an email request from an authorised officer as well as dual authorisation for setting these people up in the system itself. **Auditor comment:** Complete
10	✓ Partly	A review is undertaken to identify whether there are any other similar instances and whether there is any business reason for having multiple customer codes for the same customer. If there is no such business reason, it is recommended that a single code is maintained for each customer.	There has been a programme of merging accounts to reduce the volume. In addition for 2019/20 a new eForm is due to go live which should ensure accounts are not duplicated. This is being carried out as part of a much wider review of debt recovery/monitoring services. **Auditor comment**: In progress
11	✓ Partly	Pay policy is updated for the correct amounts payable to senior officers and to ensure that the amounts paid are agreed to the pay policy.	This has been revised and the policy is due to be agreed by Employment Matters Committee during 2019/20. **Auditor comment**: In progress

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations - *continued*

We also identified the following issues in the audit of Medway Council's 2017/18 value for money, which resulted in 2 recommendations being reported in the previous auditor's 2017/18 Audit Findings report. Both recommendations are in progress for delivery during 2019/20.

	Assessment	Recommendations previously communicated	Management update on actions taken to address the issue
1	✓	The MTFS should be updated at the same time that the budget is set for the following year. The MTFS format should be revisited so that there is a clear alignment to the Corporate Plan (i.e. mapping of priorities, objectives and issues).	The MTFS will continue to be presented to Cabinet along with other Key strategies in September. The MTFS forms the basis of the draft budget, which in line with our constitution must be considered by Overview and Scrutiny Committees at least three months before the budget is approved at the end of February each year. This year, when we present the Budget to Cabinet and Council in February, we will be presenting an updated MTF Projections document (the back page of the MTFS) to reflect the changes agreed to balance the budget for the coming year, and their impact on the 'gap' for future years. The MTFS document is based around the Council Plan to demonstrate how our financial planning is mapped onto our strategic planning. **Auditor comment**: In progress
2	✓	Improve the sophistication of the monitoring of savings schemes, including the assessment of the level of risk associated with the delivery of savings and escalation where necessary based on the level of impact on the financial position. Enhance the visibility of major transformation and savings schemes, consider monitoring these at a Committee level alongside the monitoring of revenue budgets. Review the reserves policy in place and ensure that it remains fit for purpose given the low level of reserves and the small margin available for any future funding gaps	In 2019/20 the Digital Transformation programme effectively ended, with a new Business Change team established to support the council to address both transformational change and to meet other budget savings required including reducing forecasted overspends. The Service Managers leading the Business Change team meet with the Business Partners in Finance Strategy on a weekly basis and are consulted through the budget monitoring process to ensure robust and accurate forecasting of savings delivery. The reserves policy in place will be reviewed in the development of the 2019 iteration of the MTFS, to be presented to Cabinet in September 2019. **Auditor comment**: In progress

Assessment
✓ Action completed
X Not yet addressed

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 2019.

	Detail	CIES Statement £‘ 000	Balance Sheet £’ 000	Impact on total net expenditure £’ 000
1	CIES - Incorrect grossing up of grant income and expenditure.	2,302 (2,302)	nil	nil
2	Balance sheet – Short term investment was incorrectly disclosed as long term investment	nil	10,553 (10,553)	nil
3	Note 29 Debtors - Other receivables and Creditors – Other payables is overstated by an equal amount. {Credit debtors and debit creditors}	nil	17,648 (17,648)	nil
	Overall impact	**Nil**	**Nil**	**Nil**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which are due to be made in the final set of financial statements.

Disclosure omission	Detail	Adjustment agreed?
Note 14. Officers remuneration	• A significant proportion of the senior officer remuneration, remuneration bands >£50k and exit package notes were inconsistent with underlying evidence. The disclosure was restated in its entirety.	✓
Note 21 Property, Plant and Equipment (PPE)	• Disclosure of Capital Commitments and rolling programme of revaluations carried at cost or valuation over a 5 year span should be disclosed as part of the PPE note.	✓
Note 35 Unusable Reserves – Capital Adjustment Account (CAA)	• Amounts shown in the CAA relating to disposals are understated by £2,947k within the Revaluation Gains/(Losses) on PPE. There is no impact to the core financial statements	✓
Note 36 Defined Benefit Pension Schemes	• Disclose your assumptions and impact of the McCloud and Guaranteed Minimum Pensions rulings	
Narrative report	• The Narrative Report should include a summary of the financial performance for 2018/19 and 2019/20 budget summary	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Medway Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	CIES Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Management Reason for not adjusting
1	**Potential impact of the McCloud judgement** The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £5,546k, and an increase in service costs for the 2019/20 year of £549k. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.	nil	(5,546)	5,546	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.
2	**Negative Designated Schools Grant** A Joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020/21 budget round and 2019/20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018/19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits	nil	4,139 (4,139)	nil	As the balance falls below the materiality threshold, we do not intend to amend how this figure is shown on the face of the Movement in Reserves Statement. Our approach will be reviewed in the light of more definitive guidance, should the CIPFA LAAP revisit the matter. Refer to page 13 for more details.
3	**Revenue expenditure funded from Capital under Statute (REFCUS)** The cost of the digital transformation team (last year of the three-year programme) has been funded from Revenue expenditure funded from Capital under Statute rather than recorded in the relevant service revenue line in the Comprehensive Income and Expenditure Statement	2,667 (2,667)	nil	nil	This £2.667million represents the final year of a three year scheme and falls below the materiality threshold, we do not intend to amend how this figure is treated in our financial statements. Refer to page 14 for more details.
	Overall impact	**£nil**	**(£5,546)**	**£5,546**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£109,687*	TBC
Total audit fees (excluding VAT)	**£109,687**	**£TBC**

- The fees reconcile to the financial statements Note 15

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Housing Benefit subsidy claim certification	30,000*
• Teachers' Pension return certification	4,200*
• Pooling Housing Capital Receipts grant claim certification	3,200*
Non-audit services	
None	

- * Fee estimate to be agreed

Audit opinion

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

Independent auditor's report to the members of Medway Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medway Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Housing Revenue Account which include the Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Statements, Policies and Judgements, EFA, Notes to the Collection Fund Account and Notes to the Housing Revenue Account. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- •have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative Report together with information included in the Statement of Accounts and the Annual Governance Statement, 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 of the Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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.

Audit opinion

Opinion on other matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report 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;
- 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 Chief Financial Officer and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on page x, 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 Chief Financial Officer. The Chief Financial Officer 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer 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 Chief Financial Officer 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 Committee is 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.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit opinion

Report on other legal and regulatory requirements - Certificate
We certify that we have completed the audit of the financial statements of Medway Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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]

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

Gatwick
Date

grantthornton.co.uk