Appendix 1

Medway Council Audit Plan

Year ending 31 March 2021

July 2021

Contents

Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

T 01293 554120

E Darren.J.Wells@uk.gt.com

Ade Oyerinde

Senior Manager

T 020 7728 3332

E Ade.O.Oyerinde@uk.gt.com

Nick J Halliwell

Manager

T 020 7728 2469

E Nick.J.Halliwell@uk.gt.com

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Key matters

Factors	Our response
Finances The Council's financial position over the coming years is increasingly challenging. The pandemic has resulted in additional spending pressures and your Medium Term Financial Strategy (MTFS) presented to Cabinet in February 2021 identified a projected revenue shortfall of £11.7 million and an additional Covid 19 related pressure of £13 million for 2021/22. In the short term the government is providing financial support to meet some of these pressures, including a provisional settlement (fifth tranche) of the non-ringfenced Emergency Support Grant during 2021/22, with Medway's allocation £7.864million. The Council set a total budget requirement of £323.4 million for 2020/21. In response to the Covid-19 pandemic, circa£108 million of additional grant funding was added to the revenue budget, taking the final outturn budget requirement to a total of £429.8 million. You reported provisional outturn of £420.7 million against your revised budget £429.8 million resulted in a variance of £9.1 million was reported to Cabinet in July 2021. The impact of the pandemic continues to be the key driver for the overspend within departments, including unanticipated costs for new service provision in dealing with the health crisis and the impact on income generation as a result of the national lockdown measures and the economic impact. The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022. The Council at its Cabinet meeting in February 2021 was working to close the budget gap of £2.4 million for 2021/22. The current capital programme for 2021/22 was set at £443.1 million, with a further £55.5 million estimated for proposed additions to the programme for the next financial year.	• We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
Accounting and auditing developments On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach: • A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness • More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach • The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement. Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this. In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the Council's share in Kent CC Pension Fund directly held property and pooled property funds within the assets of the pension fund. We will monitor the position for the 31 March 2021 valuations.	• Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations. • Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice. • We will continue to provide you with sector updates via our Audit and Governance Committee updates. • We will liaise with the Council's valuer and Kent CC Pension Fund managers to clarify any potential material uncertainties in 2020-21.

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Key matters (continued)

Factors	Our response
Impact of Covid 19 pandemic The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. In response to the outbreak, the Council enacted its emergency procedures including a command and control structure under the powers of the Civil Contingencies Act 2004. Throughout the pandemic the Council has kept critical services going at the same time supporting the Covid 19 national effort. The Council's efforts included establishing a Vulnerable People Hub, delivering food parcels, accommodating rough sleepers, boosting hardship funds, welfare calls to vulnerable people, assisting tenants struggling to pay rents and service charges, providing further support to residents in receipt of Council Tax Support. The response to the pandemic was delivered in partnership with Kent Resilience Forum (KRF) NHS, Police, care providers, local businesses, the voluntary & community sector and Medway Norse. The Council has also assisted with test and trace service, asymptomatic community testing and vaccine administration by helping with site preparation and logistics and in communications and engagement with local communities to encourage uptake of the vaccine. The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.	• We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

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Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Medway Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings. The Council has two subsidiaries and a joint venture which are named below:

- Kyndi Ltd (formerly Medway Commercial Group Ltd) subsidiary (subsidiaries Medway Commercial Services Ltd (MCS) and Medway Public Services Ltd (MPS)) a Local Authority Trading Company (LATCo) set up to provide services both to the Local Authority and services in a commercial market}
- Medway Development Company Ltd (MDC) subsidiary {wholly-owned by Medway Council set up to facilitate the provision of homes on the Councils behalf}
- Medway Norse Joint Venture (JV) established March 2013 {responsibility for the grounds maintenance contract, school transport for children with special educational needs, waste collection and street cleansing activities, gross turnover to over £25million per annum}.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- The risk that group accounts and disclosures are materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

Group

We will determine planning materiality and triviality for the Group on receipt of 2020/21 management or year end accounts. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Council

We have determined planning materiality to be £9m for the Council (PY £9m), which equates to approximately 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.45m (PY £0.45m).

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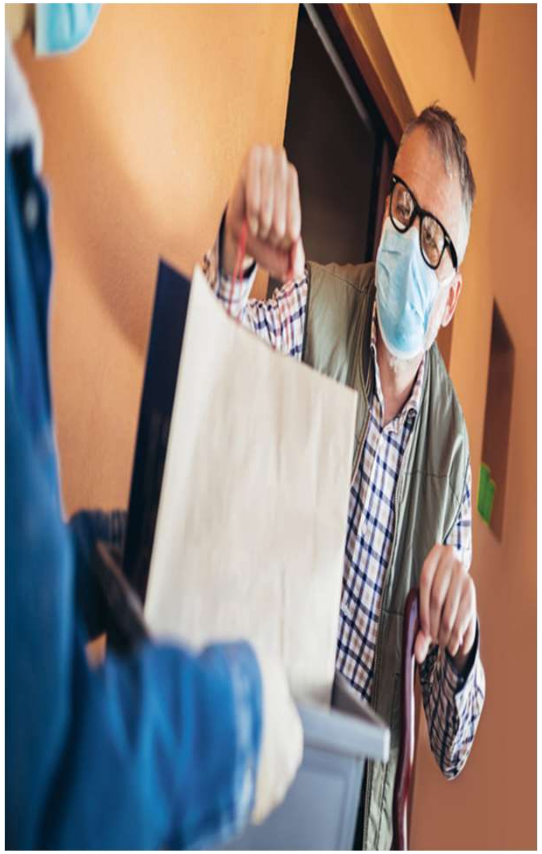
Introduction and headlines (continued)



Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.

Other areas of focus are set on page 18.

Audit logistics

Our planning procedures commenced in July 2021 and we will update this Plan should any further risks arise. Our final visit will take place between October – December 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £190,087 (PY: £TBC) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

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Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Medway Council	Yes	Comprehensive	• See page 8 onwards	Full scope audit performed by Grant Thornton UK LLP
Kyndi Ltd	TBC	Awaiting management or year end accounts for 2020/21		
Medway Development Company Ltd	TBC	Awaiting management or year end accounts for 2020/21		

Key changes within the group:

- This will be the first year Medway Council is producing group accounts

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

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Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	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 Council revenue streams, 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. • The culture and ethical frameworks of local authorities, including that of Medway Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the Medway Council.	
Fraud in Expenditure Recognition (rebutted)	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered. Having considered the risk factors relevant to Medway Council and the nature of the expenditure at the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply.	
Management over-ride 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. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Authority revalues its 'other land and buildings' and Council Dwellings 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 (£473.8 million as at 31 March 2020 pre-audit) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or fair value at the 31 March for those assets not revalued in the year. The Authority also revalues its Investment Properties on an Annual basis (£16.8 million as at 31 March 2020 pre-audit), on a fair value basis. Like the other valuations obtained this represents a key estimate that is sensitive to changes in key assumptions. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assess the value of a sample of assets in relation to market rates for comparable properties. • Assess a sample of Investment Properties in relation to market rates for comparable properties. • Test the reasonableness of the assumptions used by the valuer in valuing Investment Properties.
Valuation of the 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 size of the numbers involved (£58 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.	We will: • Update 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 evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test 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. • Undertake 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 • Obtain assurances from the auditor 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.

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Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Group account	This year will be the first year the Council will consolidate its subsidiaries and produce group accounts. The Council will need to produce group accounts that: • identifies the different interests and collaborative arrangements including any changes in the nature of relationships in determining the group boundary • aligns accounting policies with those of the Council • in accordance with the Code (chapter 9) and that disclosures are sufficient • discloses appropriate accounting policies and critical judgements. • ensures consistency of accounting periods between the Council and subsidiaries. • includes appointing auditors for the subsidiaries.	We will: • Evaluate management's processes and assumptions for determining group boundaries as part of our risk assessment and planning. • Where we determine a full scope UK statutory audit will be performed by component auditor, the nature, time and extent of our involvement in the work of component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor, audit documentation and meeting with appropriate members of management. • Agree consolidation schedules to supporting records • Test a sample of material consolidating adjustments to supporting records. • Review group accounting disclosures are in accordance with the Code.

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Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Non-pay expenditure on goods and services represents a significant percentage (69%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	We will: • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtain and test a listing of non-pay payments made in April and May 2021 to ensure that they have been charged to the appropriate year.
Accounting for grant revenues and expenditure correctly	The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2020/21 relating to Covid-19. Some of these grants relate to the Council, and others are grants which should be passed onto other entities, businesses and individuals. The Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on that decision how the grant income and amounts paid out should be accounted for.	We will; • Discuss with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements; • Understand the conditions for payment out to other entities, businesses and individuals; • Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and We will test material grant revenues to see whether the Council has accounted for these correctly.
Accounting for PPE capital additions	The Council applies a variety of methods to work out the salary recharge to capital that is inconsistent with expected accounting practice. The Code requires staff costs that are capitalised should always be actual costs to the organisation, without any 'profit' or overhead.	We will; • Discuss with management and understand the steps taken to identify any potential capitalised salaries inconsistent with applications of IAS16; • Tests a sample of capitalised salaries and agree to supporting records.
Accounting for provision of credit losses	The Council is required to consider the expected credit loss across its variety of Debtors. We note the Council had not been applying the expected credit loss model per IFRS 9 when assessing there provision for trade debtors.	We will; • Discuss with management and understand the revised model for calculating expected credit losses for consistency with IFRS 9. • Tests adequacy of expected credit losses provision for consistency with IFRS 9.

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Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, investment properties and heritage assets
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Provision for Business Rates Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 investments.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

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Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit Committee as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

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Progress against prior year audit recommendations

The 2019/20 audit is substantially complete. The agreed recommendations will be followed up as part of final accounts work and reported in our 2020/21 Audit Findings Report.

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Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

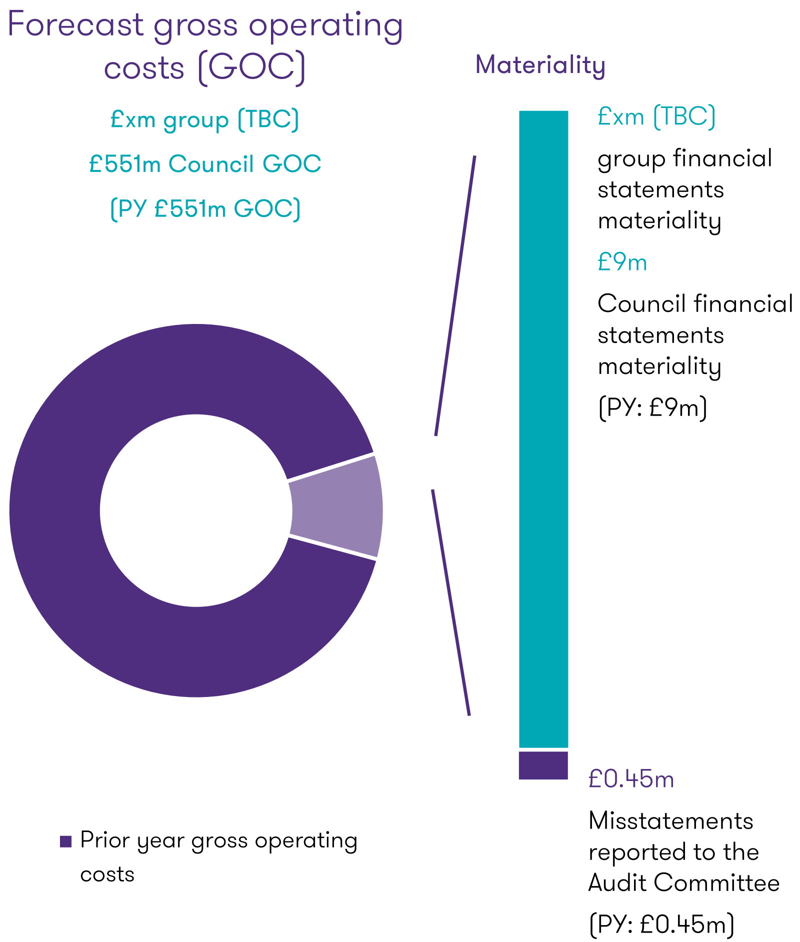
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £TBCm for the group and £9m for the Council (PY £9m), which equates to 1.5% of your gross operating costs for the year (pre audit). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £500k for cash and £100k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.45m (PY £0.45m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code 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 three specified reporting criteria. These are as set out below:

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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.

Other areas of focus includes:

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working bought about by the pandemic.
- The Council's arrangements for service transformation and cultural change.
- The Council's on-going arrangements for responding to the agreed actions following external inspections including Ofsted inspection in 2019 and HMIP inspection in February 2020.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

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Audit logistics and team

Planning & risk assessment
July 2021

Audit committee
July 2021
Audit Plan

Year end audit
October – December 2021

Audit committee
Dec 2021
Audit Findings Report
Audit Opinion

Audit committee
By Mar 2022
Auditor's Annual Report

Darren Wells, Key Audit Partner

Darren is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee, the Chief Executive and the Chief Finance Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Darren will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Darren will sign your audit opinion.

Ade Oyerinde, Audit Manager

Ade is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee, CDR and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Ade will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Nick Halliwell, Audit Manager

Nick will support Ade in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will attend Audit Committee meetings and draft reports, ensuring they remain clear, concise and understandable to all. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

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Audit fees

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PSAA awarded a contract of audit for Medway Council to begin with effect from 2018/19. The scale fee in the contract was £109,687. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach including group accounts will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £59,000. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for {add details eg property valuations estimates}, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf for discussion with the Chief Finance Officer.

	Actual Fee 2018/19	**Actual Fee 2019/20**	**Proposed fee 2020/21**
Medway Council Audit (Group accounts in 2020/21)	£122,487	£TBC	£190,087
Total audit fees (excluding VAT)	**£122,487**	**£TBC**	**£190,087**

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£109,687
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£8,900
Enhanced audit procedures for Property, Plant and Equipment	£9,000
Enhanced audit procedures for Pensions	£3,500
Covid-19 impact including PPE and pooled budget fee overruns	£TBC
Audit fee 2019/20	**£TBC**
Audit fee 2019/20 excluding Covid impact and PPE additional fees	£131,087
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Group accounts	£6,000
Complexity of audit	£10,000
Total audit fees (excluding VAT)	**£190,087**

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Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The other services provided by Grant Thornton are set out in the table opposite

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit subsidy claim	20,000	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 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.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	As above	As above
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	5,000	As above	As above
Non-audit related			
None			

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Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

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Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

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Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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