

Please contact: Phil Watts
Your ref:
Our ref: PW/RW/0035
Date: 28 July 2021



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Appendix 2
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Dear Darren

Medway Council Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Medway Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

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- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosure changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached below. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's need. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xv. As disclosed in Note 4 to the Council Statements of Accounts we are disclosing a material uncertainty in respect of the valuation of property assets, investment properties, assets held for sales, the net pension liability as a result of market uncertainty created by the Covid-19 pandemic. However, we are satisfied that the values presented in the financial statements represent the best evidence of value as at 31 March 2020.

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Specific representations

xxv. Property, plant and equipment additions

The Council had used a variety of methods to work out the salary recharge to capitalise:

- using timesheets to identify the time directly attributable to the capital project by the individual;
- using charge out rates for the individual, which would be similar to commercial rates third parties would charge the council; or
- applying percentages to contracts managed by project leads to the contracts value to determine the capital value of their time.

The Council estimation method noted above is a historic practice and may go back several years.

This identified concerns that the Council was not capitalising staff time based on the cost to the authority as per IAS16. After further work by the Council, it identified via revenue codes the population this related to which was £3.7m in value. Due to the way the Council has captured this information, establishing the exact capital cost was not possible for all the capital spend.

Therefore, the Council asked the departments to estimate the time staff had spent on capital projects to judge what the capital spend would have been. On this basis the Council determined an estimate of over-capitalised salary costs of up to £1.2m and therefore understated revenue expenditure by the same amount.

Review of prior year

The Council also reviewed the prior period impact was and also noted a further error with regards to the classification of revenue and capital spend and noted the following key points:

- the error identified went back at least 6 years and may go back further to the date IFRS accounting standards were implemented, which is 10 years ago;
- the error of £1,230k impacted infrastructure assets by £560k and assets that are revalued by £670k;
- over the same period, we had also overcharged revenue on work that should have been capitalised. We identified in 2019/20 that the value of this was £774k and that similar misstatements had occurred in each of the previous 6-10 years. However the overcharge would offset the error (£560k) identified for infrastructure assets;
- as part of the rolling revaluation programme on a regular basis, the valuation would be corrected in the CIES and the Balance sheet. However the impact of the statutory adjustments would mean the General Fund would received a benefit due to this.
- extrapolating the impact of this over a period of 6-10 years would impact on the General Fund in the range of £2.4m to £4.7m.

The failure of not capitalising staff time based on the cost to the authority as per IAS16 is a control failing on the part of the Council but, notwithstanding this, we confirm the estimate of over-capitalised salary costs is the most accurate estimate and the impact on the General Fund in 2019/20 and the prior period are not material.

Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation in draft form was minuted by the Council's Audit Committee at its meeting on 28 July 2021.

Yours sincerely

Phil Watts
Chief Finance Officer

Councillor Gary Hackwell
Chairman, Audit Committee

Enc. Appendix C

Audit unadjusted errors

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 unadjusted misstatements

All unadjusted 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 2020.

| Detail | CIES £'000 | Balance Sheet £' 000 | Impact on General Fund £'000 |
|---|----------------|-------------------------|---------------------------------|
| Council Tax Bad Debt Provision - the model used to estimate the council tax bad debt provision was updated during the year. The revision resulted in the Council's share of Provisions being understated by £3,664k. DR Expenditure CR Debtors | (3,664) | (3,664) | (3,664) |
| Collection Fund Creditors - we identified three errors within the Collection Fund Creditors as follows | nil | 1,657 | nil |
| - difference between Integra and the Northgate Collection Fund system resulting in creditors and debtors being overstated (£1,923k) | | (1,657) | |
| - misclassification of deferred income and other debtors being overstated (£201k) | | | |
| - input error from the collection fund model Collection Fund Creditors and Debtors were understated (£467k) | | | |
| DR Creditors CR Debtors | | | |
| PPE Additions – error identified in over capitalisation of staff costs DR Expenditure CR PPE | (1,230) | (1,230) | (1,230) |
| PPE Additions – error identified following discussions with Council DR PPE CR Expenditure | 560 | 560 | 560 |
| PPE Additions – Consideration of the prior period impact of overcapitalisation on the General Fund This was estimated by the council and therefore a range has been provided. | | | (821) To (1,565) |
| Overall impact | (4,334) | (4,334) | (5,155) To (5,899) |