



The Annual Audit Letter for Medway Council

Year ended 31 March 2020

November 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Medway Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 19 November 2020 and with a subsequent updated report on 28 July 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £9,000,000 which equates to 1.5% of the Council's gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 14 October 2021. We included an emphasis of matter paragraph in our opinion in respect of the uncertainty over valuations of the Council's Property, Plant and Equipment, investment properties, assets held for sale and the Authority's share of the pension fund's property investments as at 31 March 2020 as a result of the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We confirm no further work on your Whole of Government accounts is required.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Medway Council does have proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for its arrangements to help and protect children in Medway. Ofsted's inspection report on the Council's children's social care services, issued on 27 August 2019, judged services to be 'inadequate'.
Certificate	We plan to certify that we have completed the audit of the financial statements of Medway Council in March 2022.

Executive Summary

Working with the Council

The global outbreak of the Covid-19 virus pandemic had led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The impact was widespread causing volatility of financial and property markets which impacted on the Council's asset and pension fund valuations. Additionally, changes in the regulatory framework introduced increased supervision and leadership, as well as challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the Council.

Unsurprisingly, we experienced some delays during the audit as a result of the outbreak. In line with government directive, both the production and audit of the financial statements were done remotely. Furthermore, obtaining and reviewing of audit evidence remotely proved more challenging and took longer than it would normally take to review. Our audit testing of information provided by the Council was completed remotely, however this would be a more efficient process via on site visits. The combination of remote working and the challenges of gaining an understanding of complex spreadsheets via video links impacted on the length of time to complete the audit and the volume of additional work to audit the complex and technical issues that arose during the audit along with the impact of the pandemic has resulted in additional costs to the audit. We have set out detail of the additional fees on slides 14 – 16.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
November 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £9,000,000, which is 1.5% of the Council's gross revenue expenditure.

We used these benchmarks as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set specific other materiality levels were set during the course of our audit which were as follows:

- Cash and cash equivalents of £500,000; and
- Senior Officer Remuneration of £100,000.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We read the accompanying pension fund financial statements were consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

We carried out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan and/or Audit Plan Addendum	How we responded to the risk	Findings and conclusions
<p>Covid – 19</p> <p>The global outbreak of the Covid -19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid -19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 05 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council’s property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid -19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. <p>The Council’s property valuation specialists reported that valuations of land and buildings and investment properties were subject to ‘material valuation uncertainty’ as at 31 March 2020 as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>Kent Pension Fund disclosed a “material valuation uncertainty” in relation to the directly held property and pooled funds within the assets of the pension fund. Your share of these assets were material and management updated this disclosure accordingly.</p>	<p>Management updated the disclosures in Note 4 to the financial statements to include the material valuation uncertainty.</p> <p>We referred to this disclosure in our auditor’s reports as an emphasis of matter. The reference do not constitute a qualification of our audit opinion.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan and/or Audit Plan Addendum	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>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.</p> <p>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluation of the design effectiveness of management controls over journals • analysis of 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. 	<p>Our journal testing had identified two journal errors which resulted in balance sheet classification errors.</p> <p>In 2018/19 we reported that 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. We reported that the process remained unchanged during the audit year.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan and/or Audit Plan Addendum	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings including council dwellings</p> <p>You revalue your assets as follows: operational land and buildings on a rolling five-yearly basis council dwellings based on a rolling five-year approach using underlying valuations of beacon properties; and Investment Properties on a yearly basis.</p> <p>The Council 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 (£539 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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.</p> <p>The Council also revalues its Investment Properties on an Annual basis (£17 million as at 31 March 2019, on a fair value basis. Like the other valuations obtained this represents a key estimate that is sensitive to changes in key assumptions.</p> <p>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.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> 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 to ensure that the requirements of the Code are met engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. tested revaluations made during the year to see if they had been input correctly into the Council's asset register assessed the value of a sample of assets in relation to market rates for comparable properties. tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. <p>As discussed under 'Covid -19' (page 6), the Council's property valuation specialists reported that valuations of land and buildings, investment properties and assets held for sale, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p>	<p>Management updated the disclosure to include a sensitivity of the uncertainty following an audit recommendation.</p> <p>We referred to the disclosure in our auditor's report as an emphasis of matter. This did not constitute a qualification of the audit opinion.</p> <p>Additionally, we identified surplus assets of £40.7m includes 'Other Land and Building' Pentagon site which in our view had been incorrectly disclosed as a surplus asset. This should have been disclosed as Other land and building.</p> <p>The disclosure was updated. We also reported non material assets were not revalued in line with the Council's accounting policy.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan and/or Audit Plan Addendum	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£261 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated of 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 Council's pension fund valuation; • assessed of 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 and Guaranteed Minimum Pension cases. • assessed the accuracy and completeness of the information provided by the Council 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 our audit of the 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. <p>We identified with management that the Kent Pension Fund disclosed a 'material valuation uncertainty' in relation to the directly held property and pooled property funds within the assets of the pension fund. The Council's share of these assets were material. We recommended the Council include within Note 4, the pension material valuation uncertainty disclosure in line with the requirement of the Code {paragraphs 3.4.2.90 – 91}.</p>	<p>Management updated the disclosure (Note 4) to reflect the uncertainty. The disclosure was referred to in our auditor's report as an emphasis of matter. This did not constitute a qualification of the audit opinion.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on the 14 October 2021.

Preparation of the financial statements

The Council presented us with draft financial statements on 5 August 2020 and working papers to support the accounts were provided piecemeal in the following weeks and months. Restrictions for non-essential travel have meant that Council and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity. Remote working requires our audit team to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer).

The size and technical complexity of local government accounts in their current form, and the scale of regulatory and audit requirement in respect of those accounts, are significantly greater than they were even 5-6 years ago. In addition, Council finance teams are leaner than they have been historically, in part in response to austerity over the past decade, and capacity is severely constrained, whilst the workload and expectations of finance teams and those preparing accounts is significantly greater than it used to be. In essence, as much as twice the work is needed from finance teams which now have significantly fewer people involved. Capacity is therefore a significant factor affecting many councils, and particularly councils as large and complex as Medway Council.

This has contributed significantly to the length of time to complete the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee initially on 19 November 2020. At the time, we reported progress with the audit and set out a number of complex and technical issues that was under review. The most significant of which included PPE additions and valuations, pooled budgets, cash flow disclosures, provisions and financial instruments disclosures.

We presented an updated Audit Findings Report to the Audit Committee on 28 July 2021 setting out the outcome from the technical issues and the impact on the Council's financial statements. We reported a total of ten financial errors adjustments and five unadjusted errors ranging between £5.2m and £5.9m. Management chose not to adjust for the latter on the grounds that the total value was not material or accurately measured as some of the unadjusted errors were an extrapolation. We further reported to those charged with governance twenty nine disclosure errors or omissions other than trivial items which management had adjusted the financial statements for.

The volume of additional work to audit the complex and technical issues that arose during the audit along with the impact of the pandemic and completing the audit remotely has resulted in additional costs to the audit. We have set out detail of the additional fees on slides 14 – 16.

We concluded that the other information published with the financial statements was consistent with our knowledge of your organisation and the financial statements we had audited.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We confirm no further work on your Whole of Government accounts is required in line with the instructions provided by the NAO.

Certificate of closure of the audit

We will certify that we have completed the audit of the financial statements of Medway Council in March 2022.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf. We raised a total of eight recommendations to further strengthen the Council's value for money arrangements.

Overall Value for Money conclusion

Except for the matter we identified in respect of Ofsted's inspection report on the Council's children's social care services, issued on 27 August 2019, which judged services to help and protect children in Medway to be 'inadequate', the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We therefore gave a qualified 'except for' conclusion in respect of the Council's value for money arrangements.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Overview (Financial outturn and sustainability)</p> <p>The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Despite challenging conditions, in particular the impact of Covid-19 in the last part of the year, the Council achieved a net underspend of £2.8million in 2019/20, which was transferred to the Council's usable general fund reserves. This underspend was achieved through a strict moratorium on non-essential spend having identified potential pressures earlier in the year.</p> <p>In February 2020, the Council set a budget for the financial year 2020/21, which included a deficit of £0.3m (which was anticipated to be covered by a favourable movement on the Business Rates side of the Collection Fund). Following the significant financial impact of Covid-19 that became apparent in March 2020 and the lockdown period spanning the first financial quarter, the Council is currently anticipating a budget gap of £2.5m in 2020/21, once the first three tranches of Covid-19 funding and an expectation of the 75% income compensation scheme are taken into account. However, the forth tranche of Covid-19 funding (£6.3m) has not yet been utilised at this stage. This provides comfort that the Council is likely to be able to deliver a balanced budget in 2020/21, subject to further developments in regard to management of the pandemic in the final quarter of the financial year.</p> <p>The original Medium Term Financial Strategy (MTFS) published in September 2019, anticipated a funding deficit building to £17.3m by 2023/24. The revised MTFS that would normally be prepared in September 2020, has been delayed to November due to Covid-19 uncertainties and was not available at the time of writing. However, draft figures were made available for 2021/22, indicating an increasing gap of £11.7m in 2021/22 rising to £20.4m, by 2022/23. These figures are based on the assumption that the Council's cost base and income generation returns to a 'business as usual' footing from 1st April but could be higher if Covid-19 pressures become embedded in the longer term.</p>	<p>Setting a balanced budget in 2021/22</p> <p>The Council faces a significant challenge in meeting its statutory duty to set a balanced budget for 2021/22, and will be reliant on adequate financial support being provided by government through the annual funding settlement, or other additional measures.</p> <p>There is a risk that under current arrangements, should government funding fall short of expectations, the Council may not have sufficient reserves to cover the resulting deficit while also being able to demonstrate ongoing financial sustainability, without significant decisions being made around potential savings and current levels of service provision.</p> <p>The Council's usable general fund reserves stood at £11.6m at 31 March 2020, in addition to an Earmarked General Fund Balance of £18.8m, which includes £5.3m of Covid-19 funding from central government that is being used to mitigate the overspend in 2020/21. The Council has set a minimum General Fund Balance of £10m, providing some limited flexibility.</p> <p>Overall conclusion</p> <p>As for all councils across the country, Covid-19 presented a major challenge to the Council's financial position and its future financial sustainability. However, we were satisfied that the Council had put in place adequate arrangements to understand and plan for its financial sustainability in the short to medium term.</p> <p>In common with many other local authorities, the Council faced a significant challenge in meeting its statutory duty to set a balanced budget for 2021/22 and is likely to be dependent on further government support, primarily through the funding settlement due to be announced in late November 2020.</p> <p>We have made a number of recommendations in our updated Audit Findings Report presented to the Audit Committee on 28 July 2021 to help the Council strengthen its financial arrangements in the face of the increased level of financial challenge we consider likely to be faced from 2021/22 onwards.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Overview (Ofsted inspection of children’s social care services)</p> <p>Ofsted’s inspection report on the Council’s children’s social care services, issued on 27 August 2019 judged its services to help and protect children in Medway to be ‘inadequate’. This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate financial and performance information to support informed decision making and performance management and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p> <p>Following the inspection, the Council introduced quarterly updates on improvement activity. The reports were reported quarterly to the Children and Young People Overview and Scrutiny Committee (CYPOSC). An Improvement Board also meets monthly to oversee progress on the Improvement Plan. The improvement Plan was later updated in July 2020.</p> <p>Ofsted monitoring visits scheduled in March and June 2020 were postponed due to Covid19 restrictions before an off-site visit took place in August 2020. The inspectors reviewed the progress made by the ‘front door’ of the service, focusing on the interface with early help services, the quality of initial decision-making, the timeliness of service provision and the quality of initial assessment and planning.</p> <p>We note this first visit is not published but the findings were shared with the Council to inform ongoing improvement priorities. A summary of the Ofsted visit was reported to CYPOSC in October 2020 and some of the messages include:</p> <ul style="list-style-type: none"> • recognition that targeted investment in the service and a planned realignment of teams has laid the foundations for practice to change and improve; • continuity of senior management team in post and additional investment in staffing has contributed to reducing caseloads to manageable levels in the assessment teams; • additional 35 social work posts created across the service increased the capacity to complete work with families when they are referred to children’s services. <p>However, the report back to CTPOSC also identified areas where further work was still needed including:</p> <ul style="list-style-type: none"> • quality of management oversight and direction was not yet consistently contributing to effective planning; • Acknowledgement that recruitment and retention of social workers remains problematic which is being addressed through the introduction of a more structured career pathway and a firmer focus on creating a more positive working environment. 	<p>Conclusion</p> <p>Per NAO’s Auditor Guidance Note 3 (AGN 03) issued in April 2020, an inadequate inspection report is indicative of improper arrangements to secure economy, efficiency and effectiveness in your use of resources.</p> <p>We therefore issued a qualified 'except for' conclusion.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	19 March 2020
Audit Plan Addendum	30 April 2020
Audit Findings Report	19 November 2020
Audit Findings Report updated	28 July 2021
Auditor's opinion on Accounts	14 October 2021
Auditor's value for money conclusion	14 October 2021
Annual Audit Letter	November 2021
Grants	
Pooling of Housing Capital Receipts	29 January 2021
Housing Benefit Grant Certification and report	30 April 2021
Teachers' Pension claim (engagement letter to be signed)	TBC
WGA Assurance Statement (awaiting receipt of WGA return)	N/a

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	131,087	183,341	122,487

A. Reports issued and fees continued

Audit fee variation set out in Audit Plan

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA (accounts £109,687) this assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Audit area	Financial Accounts	Rationale for fee variation
Scale fee	£109,687	This is the PSAA scale fee and is unchanged from 2018/19
Increased challenge and depth of work	£4,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity
Materiality	£3,000	As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling, increasing the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£3,500	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£6,500	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Gerald Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5,000.
Accounting developments	£1,900	The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of new accounting standards and disclosures. This will require additional audit procedures.
Revised scale fee (to be approved by PSAA)	£128,587	

A. Reports issued and fees continued

Audit fee variation

As outlined in our Audit Findings Report presented to the Audit Committee on the 28 July 2021, the audit presented a number of challenges, which lead to additional costs on the audit. The current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes revisiting planning, management's assumptions and estimates, financial resilience assessment and remote working. As outlined in our Audit findings report there were a number of technical and complex issues identified in this years audit that also impacted the time the audit took to complete and therefore its cost, these our set out in the table below. These additional fees were approval by PSAA in line with the Terms of Appointment.

Audit area	Financial Accounts	Rationale for fee variation
Revised scale fee (to be approved by PSAA)	£128,587	Per slide 15
Additional fee on 2019/20 audit	£30,525	We under took additional work in a number of areas across the financial statements including PPE additions and valuations, pooled budgets, cash flow disclosures, provisions, financial instruments disclosures, internal recharges, MRP, prior period reviews
Impact of Covid-19	£24,229	Increased work due to COVID-19 which includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses.
Final Fee	£183,341	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
• Certification of Pooling of Housing Capital Receipts	3,200
• Certification of Housing Benefit Claim	26,000

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

