

AUDIT COMMITTEE

5 OCTOBER 2022

INTERIM AUDITOR'S ANNUAL REPORT

Report from: Katey Durkin, Chief Finance Officer
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Summary

This report presents the Committee with the outcome of the work of the Council's external auditors, Grant Thornton, to review whether the authority proper arrangements in place to secure economy, efficient and effectiveness in the use of our resources.

1. Budget and policy framework

- 1.1. The Terms of Reference of the Audit Committee include receiving all reports by the external auditor.

2. Background

- 2.1. Independent external auditors are responsible for carrying out audits of local authorities against the relevant legislation, codes and guidance. Following a national procurement process led by the Public Sector Audit Appointments Ltd (PSAA), Grant Thornton were appointed as the Council's external auditors for a period of five years from the audit of the 2019/20 financial year. The external audit consists of two principal areas of work; issuing an opinion as to whether the financial statements give a true and fair view of the financial position and have been prepared properly, and to report on the authority's arrangements to secure value for money.

3. Advice and analysis

- 3.1. The Interim Auditor's Annual Report from Grant Thornton is provided at Appendix 1 to this report. Their report sets out their conclusions and recommendations following their work to assess the Council's financial sustainability, Governance and our arrangements to improve economy, efficiency and effectiveness and is summarised in the table overleaf (from page 3 of Appendix 1).

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but two Improvement Recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but four Improvement Recommendations made.
Improving economy, efficiency and effectiveness	Significant weakness identified	One area of significant weakness in arrangements identified. One Key Recommendation made.

	No significant weaknesses in arrangements identified or improvement recommendations made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

3.2. The report provides the detail of the findings supporting those conclusions and the recommendations, along with a management response from the Council's officers.

3.3. The interim report is provided for Member's information only, and a final report from the external auditors will be presented to the Committee following the conclusion of the audit work for 2020/21.

4. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
External audit fee exceeds budget	External auditors are required to do as much work as they consider necessary to deliver their assurance on the council's statements and arrangements to	Close working with external auditors to ensure any issues identified through the audit are corrected for future years statements to minimise	B3

Risk	Description	Action to avoid or mitigate risk	Risk rating
	<p>deliver value for money. The code which defines the work required is expanded each year and the complexity of the work required is growing meaning it may not be possible for the external auditors to deliver the amount of work they consider is required within the contractual fee set.</p>	<p>additional fee required.</p>	

5. Financial implications

- 5.1. The Audit Scale Fee for Medway for the 2020/21 audit remains as set via the contract tendering process undertaken by PSAA on behalf of c98% of local authorities at £109,687.
- 5.2. On 28 July 2021 the Audit Committee considered the External Audit Plan and Audit Fee for 2020/21, and the Committee agreed to note that for 2020/21 the proposed fee is a further £80,400 above the Scale Fee, taking the fee to £190,087. This assumes additional costs arising in the 2019/20 audit around the impact of Covid-19 and overruns on work on Property, Plant and Equipment (PPE) and pooled budgets remain and also takes account of the following:
- Additional VFM work required under the new Code,
 - Increased audit requirements of the revised International Standards of Auditing,
 - The introduction of group accounts, with Medway Council consolidating its subsidiaries Medway Development Company and Kyndi into its accounts, and
 - The complexity of audit.
- 5.3. In 2021/22 the Council received a grant from the government in recognition of the increasing pressure on external audit fees of £56,544. We await confirmation from the government through the Local Government Finance Settlement as to whether this funding will continue in 2022/23 or beyond.

6. Legal implications

- 6.1. The annual external audit of the financial statements and arrangements to ensure value for money for local authorities are a statutory requirement of the Local Audit and Accountability Act 2014.

7. Recommendations

- 7.1. The Committee is asked to note the content, recommendations made and management responses in the Interim Auditor's Annual Report from the Council's external auditors, Grant Thornton.

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Appendices

Appendix 1 – Medway Council Interim Auditor's Annual Report, Grant Thornton

Background papers

None.