Audit Findings for Medway Council

Year ended 31 March 2021

03 March 2023

Contents

Your key Grant Thornton team members are:

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

Ibukun Oluwasegun
Audit Manager
E Ibukun.O.Oluwasegun@uk.gt.com

Shoolin Yagnik
In charge accountant
E shoolin.g.yagnik@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Name : Darren J Wells
For Grant Thornton UK LLP
Date : 3rd March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Medway Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and the Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Audit progress

The Interim Audit Findings Report which was presented to the January 2023 Audit Committee, summarised some of the challenges both the finance team and the audit team faced in completing the audit within the planned end of September agreement.

The audit team and council team continued to work together closely and collaboratively, to minimise delays and complete outstanding areas of the audit as quickly as possible. As a result, the audit has significantly progressed since the January 2023 audit committee. The findings in this report have been updated accordingly. For ease of identification, updated findings and commentary are shown in underlined text. In addition, pages 11-16, Appendix E & F covers our findings on infrastructure assets, the key judgements and estimates ,audit adjustments, audit opinion and management letter of representation. These pages were not included in the interim report. All other information reported is as per the January 2023 report to Members.

Our findings to date are summarised in Appendix A - C. The adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance sheet to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our audit work is nearing completion. As at the date of writing (3rd March), the following areas remain outstanding;

- testing of property, plant & equipment. This includes Investment properties, HRA properties, and other land and buildings;
- pension liability testing;
- minimum revenue provision review;
- group accounts review;
- review of other information.
- completion of quality review of audit work and resolution of any arising queries;
- review of the final set of financial statements;
- receipt of management representation letter.

The cumulative impact of identified unadjusted errors in 2020/21 and 2019/20 and areas of uncertainty are such that we have to consult internally. The outcome of this internal consultation may require additional testing to reduce the degree of uncertainty. We shall update members of the outcome at its committee meeting.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work and our detailed commentary was set out in the separate interim Auditor's Annual Report. This was presented to Audit Committee on the 3 November 2022. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings were set out in the separate interim Auditor's Annual Report and are summarised in the value for money arrangements section of this report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties to date. Our work under the Code is in progress and we are on course to issue our opinion in March 2023. We are unable to issue our completion certificate until: - the required procedures in respect of the WGA have been performed.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of all members of the group and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. {e.g. From this evaluation we determined that specified audit procedures were required for Kyndi Ltd.'s expenditure transactions and Medway Development Company Ltd.'s inventory } and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not altered the audit plan communicated to the Audit Committee March 2022.

Conclusion

Our audit of your financial statements is substantially complete and subject to outstanding items being resolved- as detailed in page 3 of this report. we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on March 2023.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 17 March 2022 including the specific materiality levels set for cash and senior officers remuneration.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	£9,200,000	£9,000,000
Performance materiality	£5,980,000	£5,850,000
Trivial matters	£460,000	£450,000
Materiality for cash balances	n/a	£500,000
Materiality for Senior officers remuneration	n/a	£100,000

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) [Group and Council]	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In our Audit Plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and its subsidiaries, we had determined that the risk of fraud arising from revenue recognition could 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 the Medway Council, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for Medway Council and its subsidiaries. Our assessment remains consistent with that reported in our Audit Plan. Although not deemed a significant risk, we have undertaken sufficient audit testing to obtain assurance that revenue disclosed in the financial statements is materially correct.
Fraud in Expenditure Recognition (rebutted) [Group and Council]	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. Our assessment remains consistent with that reported in our Audit Plan. Notwithstanding our assessment that there isn't a fraud risk, we have tested all material expenditure streams and have not identified fraud in expenditure recognition from our audit testing.
Management override of controls [Group and Council]	We have: - evaluated the design effectiveness of management controls over journals; - analysed the journals listing and determined the criteria for selecting high risk unusual journals; - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. In 2019/20 audit, 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 understand this remained unchanged during the audit year. Our audit work in this area is substantially complete. There are currently no matters to draw to the attention of the Audit Committee in respect of the identified risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings [Group and Council]	We have: • 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. • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • assessed the value of a sample of assets in relation to market rates for comparable properties. • assessed a sample of Investment Properties in relation to market rates for comparable properties. • tested the reasonableness of the assumptions used by the valuer in valuing Investment Properties. The Council uses its own internal valuers and an external valuer. In total four valuation reports are produced to support the valuation of council dwellings, other land and buildings and investment properties. We used an auditor's expert to assess the instructions issued for the valuers and the valuation reports. We followed up a small number of queries. In conclusion, we were assured on the approach taken by the Council's valuers. We have satisfactorily tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements with the exception of one error of £516k. This was because management did not account for the valuation of the asset correctly. This has now been adjusted. See Appendix C. Our work on testing the valuation of PPE is ongoing. Our detailed comments currently are shown on pages 11 to 13.
Group account [Group audit only]	We have: • evaluated management's processes and assumptions for determining group boundaries as part of our risk assessment and planning. • agreed consolidation schedules to supporting records • tested a sample of material consolidating adjustments to supporting records. • reviewed group accounting disclosures are in accordance with the Code. The financial year 2020-21 marks the first year for the Council producing group accounts. Management submitted the first draft at the start of the audit in March and on review, we identified some audit issues and requested management to reconsider the group accounts and produce a second draft. Revised group accounts was provided by management on the 13th October 2022. We have since reviewed the accounts and sent management some further points for consideration. Management worked through the points raised and submitted for audit review on the 24th February 2023. Therefore, our audit work in this area is in progress. Audit findings noted to date have been discussed with management. A summary of these discussions can be found in Appendix C of this report. This conclusion is subject to the completion of the remaining audit work in this area and the outstanding work set out on page 3 of this report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability [Group and Council] The Authority'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 (£335m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	For the significant risk, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their new management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • undertaken 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. We have also: • assessed the accuracy and completeness of the information provided by the Authority 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. We have set out the results of our consideration of the actuary's approach and assumptions applied on page 15 Our audit work in this area is in progress. In carrying out our work to test the consistency of the movements in the underlying assets and liabilities with our auditor expectations by applying analytical procedures, we noted the actuary had used an estimated rate of return for the pension fund. This caused a variance greater than our determined acceptable difference. We are currently working through the implications of this.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Completeness of non-pay operating expenditure and associated short-term creditors (Group and Council)	We have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • obtained and tested a listing of non-pay payments made in April and May 2021 to ensure that they have been charged to the appropriate year. <u>Our audit work in this area is complete.</u> Audit findings noted to date have been discussed with management for consideration. A recommendation has been made for management to review the de minimis level set. This can be found in Appendix A of this report. Other findings in regards to this risk are summarised in Appendix C.
Accounting for grant revenues and expenditure correctly (Group and Council)	We have; • discussed with management and understood the different types of material grants received during 2020/21 and what the conditions are in the grant agreements; • understood the conditions for payment out to other entities, businesses and individuals; • understood whether the Council should be acting as agent or principal for accounting purposes; and • tested material grant revenues to see whether the Council has accounted for these correctly. <u>Our audit work in this area is complete.</u> We noted that the Council disclosed the incorrect amount for the Better Care Fund grant. This has led to an audit disclosure adjustment in the CIES and grants note of some £14.6 million. The Audit findings noted can be found in Appendix C.
Accounting for PPE capital additions (Group and Council)	We have; • discussed with management and understood the steps taken to identify any potential capitalised salaries inconsistent with applications of IAS16; • tested a sample of capitalised salaries and agreed to supporting records. <u>Our audit work in this area is substantially complete. We noted that some staff costs were incorrectly capitalised. The Council carried out an assessment of the impact and identified over-capitalised salary costs up to £886k in 2020/21 and therefore understated revenue expenditure. This amount remains unadjusted. This can be found in Appendix C.</u>
Accounting for provision of credit losses [Group and Council]	We have; • discussed with management and understood the revised model for calculating expected credit losses for consistency with IFRS 9. • tested adequacy of expected credit losses provision for consistency with IFRS 9. <u>Our audit work in this area is substantially complete.</u> There are currently no matters to draw to the attention of the Audit Committee in respect of the identified risk.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary
Valuation of Infrastructure Assets • The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Medway Council has material infrastructure assets, at a gross /net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	Medway Council infrastructure assets under the Local Authority Code are measured at historical cost. In accordance with the accounting code when a component asset is replaced, the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and the gross cost and accumulated depreciation of the old component derecognised to avoid double counting. However, during 2021 an issue was identified by auditors across the UK, auditing Local Authorities, that accounting for infrastructure assets was not correct, in that the old components were not being appropriately derecognised, due to the nature of the underlying infrastructure assets accounting records maintained. Since these issues were first identified, CIPFA and the English Governments worked together to produce long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions have been put in place in the interim. These short-term solutions include the issue of Statutory Instruments (SIs) by government and an update to the CIPFA Code. The CIPFA Code update was issued on 29 November 2022. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022 – see The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (legislation.gov.uk). CIPFA issued CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution on 11 January 2023, which includes further guidance and illustrative examples on the depreciation of infrastructure assets and the associated useful economic lives (UELs). As a result of the content of the English SI, there is no requirement for prior period adjustments (PPAs). Following this SI, we concluded that a normal risk of an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges still remained. We therefore requested management to review their estimation of UELs. Management have since revisited the estimate and refined this in line with recommendations from their highways team and the CIPFA guidance in order to gain maximum accuracy for this calculation. Following this, management re-estimated depreciation for 2020-21 at £5,556k from £9,049k - A change of £3,493k. We reviewed this re-estimation and noted no significant issues with the work performed by management and the subsequent revisions to the accounts as a result. Our audit work on this area is substantially complete. We noted the changes made to the depreciation estimate and the disclosure of the infrastructure assets in Note 21 in line with the CIPFA bulletin. This is included as part of the adjustments in Appendix C.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £332m Council dwellings - £156m Surplus assets - £22m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged its internal valuer and external valuer (Harrisons) to complete the valuation of properties as at 28 Feb 2021 and 31 Mar 2021 for one asset. The total year end valuation of land and buildings was £332m, a net decrease of £16m from 2019/20 (£348m). Management requested valuers to value £191m of OLB assets. Some £147m were not revalued in the year. All Council dwellings were revalued using the beacon method of valuation. Of a total 198 beacons, valuers assessed 118 beacons and applied indexation adjustments to the remaining beacons. Some £20m of the surplus assets were revalued in the year.	Following a risk assessment, we selected 20 assets for detailed testing with a total valuation of £121m. Of these assets, 2 were valued on a DRC basis, one on market value and 17 on EUV basis – this included 12 assets that were previously valued on a DRC basis. We are verifying all inputs to these sampled assets. This work is currently in progress. Internal valuers considered whether the £147m of OLB assets not revalued in the year continued to be fairly stated as at 31 March 2021 and concluded they were. Whilst a brief rationale was given for each asset, there wasn't any reference to market data that would allow a third party to understand and contextualise the valuer's judgement. For example, consideration of school playing fields and the current price per hectare of such land or changes in building costs for assets valued using DRC methods. We recommend that the supporting working paper for assets not revalued in the year be strengthened for future audits. Using market data, we assessed the risk of unvalued assets being misstated at the year end. Our estimate based on reliable market data is that the £147m of OLB assets not revalued may be overstated by £5.6m as at 31 March 2021. Our review of the council dwelling valuation and surplus assets is in progress. We will update members on the outcome of our work at the committee meeting.	TBD

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £16.9million	The Council has engaged its internal and external valuers (Harrison) to complete the valuation of properties as at 28 February 2021. The total year end valuation of investment property was £16.9m, a net decrease of £0.1m from 2019/20 (£16.8m).	Using our auditor's expert, we are satisfied that the Council's valuer's approach to the valuation of investment properties is reasonable. We have tested 6 investment properties to assess in detail the valuer's assumptions and inputs to the valuation. We have a small number of queries that we are currently following up. We are satisfied with the adequacy of disclosure of estimate in the financial statements Subject to the completion of the detailed testing, there are currently no matters to draw to the attention of the Audit Committee in respect of the identified risk.	TBD

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Audit Comments	Assessment
Net pension liability – £335m The Council's net pension liability at 31 March 2021 is £335m (PY £265m) . The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. A full actuarial valuation was carried out as at 31 March 2019 and used in determining the contribution rates with effect from 01 April 2020 to 31 March 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We have; • assessed the actuary, Barnet Waddingham, to be competent, capable and objective; • performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2020/21 calculation carried out by the actuary; • used PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions	TBD

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	Light Purple
Pension increase rate	2.85%	2.80% - 2.85%	Light Purple
Salary growth	3.85%	CPI + 1%	Light Purple
Life expectancy – Males currently aged 45 / 65	45: 21.6 65: 22.9	21.9 - 24.4 20.5 - 23.1	Grey
Life expectancy – Females currently aged 45 / 65	45: 23.6 65: 25.1	24.8 - 26.4 23.3 - 25.0	Light Purple

- assessed the completeness and accuracy of the underlying information used to determine the estimate is reasonable
- assessed the impact of any changes to valuation method
- assessed the reasonableness of increase/decrease in estimate
- assessed the adequacy of disclosure of estimate in the financial statements

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £4.959million	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2020/21, management commissioned experts 'Analyse Local' when calculating the level of provision required based upon the latest information about outstanding rates appeals and previous success rates. We challenged the reduction in business rates appeals provision as at 31 March 2021.	Audit procedures being undertaken in response to the identified issue include: • Assessment of management's expert • Appropriateness of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against peers/industry practice • Reasonableness of decrease in estimate • Adequacy of disclosure of estimate in the financial statements Our work is substantially completed. No material issues have arisen in relation to this estimate.	Light Purple
Land and Buildings – Council Housing - £156m	The Council is required to revalue its dwellings in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its external valuers – Wilks Head & Eve- to complete the valuation of these properties. The year end valuation of Council dwelling stock was £156milllion, a net decrease of £5m from 2019/20. Council dwelling were valued as at and 31 March 2021.	Audit procedures being undertaken in response to the identified issue include: • Assessment of management's expert, • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against near neighbours/GE report • Reasonableness of decrease in estimate • Adequacy of disclosure of estimate in the financial statements Our audit work in this area is in progress. There are currently no matters to draw to the attention of the Audit Committee in respect of the identified risk. This conclusion is subject to the completion of the remaining audit work in this area and the outstanding work set out on page 3 of this report.	TBD

Assessment

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

2. Financial Statements – Key findings arising from the group audit

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.

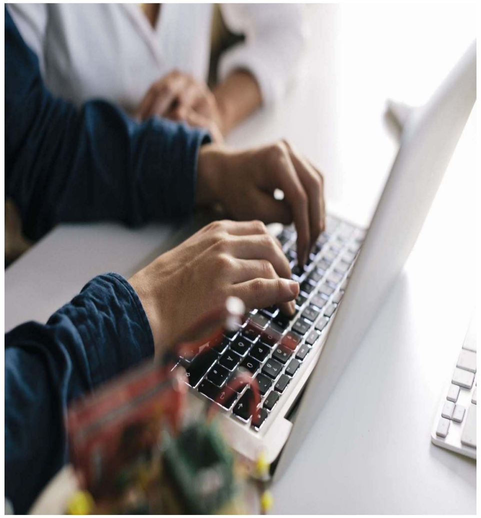
Audit area	Work performed	Group audit findings
Group accounts Medway Council has two subsidiaries Kyndi (formerly known as Medway Commercial Group), and Medway Development Company and two joint ventures (Medway Norse Limited and Medway Norse Transport) over which it has controlling interest. 2020/21 represents the first year of consolidation for the Medway Council.	We have: - assessed the reasonableness of consolidation - reviewed the consolidation process - reviewed the financial information of the entities within the group - tested classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements - reviewed the overall group accounts to ensure adequacy of disclosure of estimate in the financial statements in accordance with the Code.	Our audit work in this area is in progress. We recognise that the financial year 2020-21 marks the first year for the Council producing group accounts. As a result, we noted the following findings on review of the group accounts : - omission of significant accounting policies to the group accounts - omissions of significant notes to accompany the core statements of the group accounts (i.e. inventory note) - omissions of comparative figures of core statements - errors on accounting for transactions on the core group statements due to intra-group transactions not eliminated on consolidation - general mathematical and presentational findings on the core group statements and accompanying notes. These findings were communicated to management during the course of the audit and amendments to the group accounts have been made accordingly.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period. To date, no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	To date, we are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and to date, we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council in respect of the audit. Where specific representations are being sought (i.e. in respect of the Group), this will be highlighted to management.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks, property valuers and the pension fund actuary via Kent County Council. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Where we have identified issues, this have been communicated to management. A summary can be found in Appendix C of this report.
Audit evidence and explanations/ significant difficulties	No significant issues have been noted from the information and explanations requested from management. Where audit evidence/ explanations remain outstanding, these are listed in the outstanding matters on page 3 of this report.

2. Financial Statements - other communication requirements

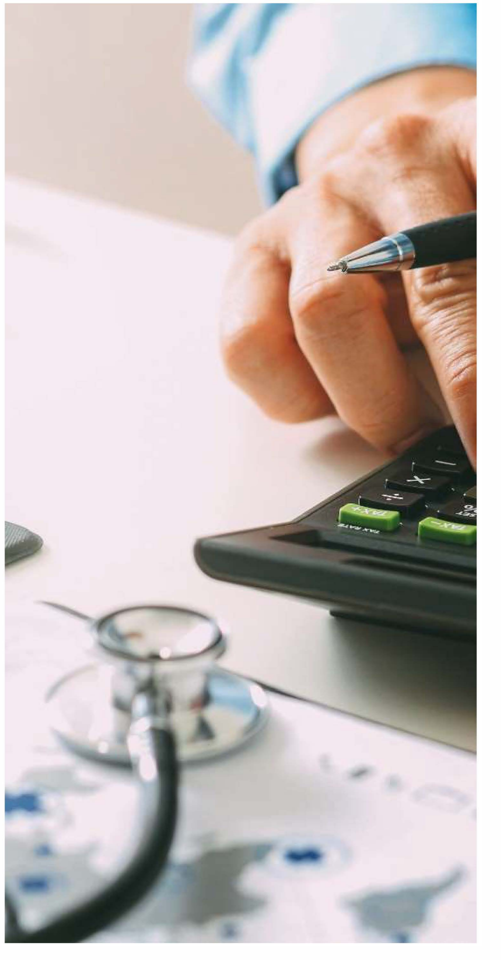
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and group and the environment in which it operates • the Council and group's financial reporting framework • the Council and group's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. To date, no material inconsistencies have been identified. This conclusion is subject to the completion of the remaining audit work in this area and the outstanding work set out on page 3 of this report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. As part of our value for money work, we have noted a significant weakness in respect of improving economy, efficiency and effectiveness. This matter will be reported accordingly.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. For 2020-21 period, the council is above the minor body threshold and therefore will have to complete and submit a WGA return. This return will not be subject to a full audit however, we are required to submit an assurance statement intended to summarise key information and the results of the audit work. Note that this work is not yet completed in respect of WGA. These procedures will be completed at the conclusion of the audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Medway Council in the audit report, due to incomplete WGA work. This will take place following the conclusion of the financial statements audit. This will be reflected in the audit opinion.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary was set out in the separate interim Auditor's Annual Report, which was presented to Audit Committee on 3rd November 2022.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Improving Economy, efficiency and effectiveness	We considered how the Council: - uses financial and performance information to assess performance to identify areas for improvement; - evaluates the services it provides to assess performance and identify areas for improvement; - ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve; - ensures that it commissions or procures services in accordance with relevant legislation, profession standards and internal policies, and assess whether it is realising the expected benefits.	For 2020-21, we find that most children covered by the Medway Council's Children's Service were not receiving a good enough service. Looking forward, we note that some costs within that Service have been growing rapidly since 2021-22 and that this may undermine efforts to improve the Service.	We have raised a Key Recommendation around medium term financial strategic planning and other areas of improvement required for the Children's Service.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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. Details of fees charged are detailed in Appendix E

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Proposed Fees £	Threats identified	Safeguards
Audit related			
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	£7,500	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 and in particular relatively low 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the work is carried out by a separate team to the financial statement audit team. In addition, there is a separate materiality for the work performed. This materiality is usually lower than the financial statements audit materiality. Therefore, this is unlikelihood to lead to material errors arising within the financial statements. The Council will be informed on findings from this work and management will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	£6,000	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 and in particular relatively low 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the work is carried out by a separate team to the financial statement audit team. In addition, there is a separate materiality for the work performed. This materiality is usually lower than the financial statements audit materiality. Therefore, this is unlikelihood to lead to material errors arising within the financial statements. The Council will be informed on findings from this work and management will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit subsidy claim	£29,750	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 and in particular relatively low 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the work is carried out by a separate team to the financial statement audit team. In addition, there is a separate materiality for the work performed. This materiality is usually lower than the financial statements audit materiality. Therefore, this is unlikelihood to lead to material errors arising within the financial statements. The Council will be informed on findings from this work and management will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. No non-audit services were identified which were charged from the beginning of the financial year to current date.

Appendices

A. Action plan – Audit of Financial Statements

To date, we have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	The Council's accrual limit at Income and Expenditure is £500 As part of our audit work on income and expenditure testing, we have identified a number of transactions above the current accrual limit which were not accrued for. In some cases, as management are not able to identify the full impact of the lack of accrual or sufficiently isolate the error for audit purposes, this has led to an extrapolation of the error. The risk is that the extrapolated error could be significant and combined with unadjusted misstatements from previous years, lead to a compounded material misstatement.	Management should review and assess whether this accrual limit remains appropriate for future years. This assessment will be reviewed by auditors in 2021/22 Management response *We agree to undertake a review as to whether the accrual limit as asset out in the Council's accounting policies remains appropriate for future years by the end of January 2023.*
● Medium	Date of schools bank reconciliation As part of our audit work on the schools bank reconciliations, we noted that a number of schools perform their bank reconciliation for the year before year-end 31st March. The most common date noted was at 23rd of March. We understand that this is to ensure that the returns are completed before the Easter holidays. In some instances, this led to a larger than expected variance between the bank reconciliations carried out by the schools, and the information provided by the third-party banks.	We recommend that as part of the accounts close working papers, management produce a paper assessing the cash impact of completing the reconciliation before the 31st March to ensure there is no material difference as a result of early reconciliation. Management response *We will complete work as per the recommendation.*

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

As part of the audit of Medway Council's 2019/20 financial statements, we identified 16 recommendations which were reported in our 2019/20 Audit Findings report. In addition, two recommendations from 2018/19 were not addressed in 2019/20. We have followed up on all 18 recommendations and assessed the outcome in the following tables.

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
✓	2018/19	**IT general controls** Our review of IT general controls resulted in 4 medium priority recommendations around the following areas: • Lack of segregation of duties between security administration and business management • Proactive reviews of logical access within Northgate iWorld • Lack of documented batch administration policies and procedures • Change control over Northgate iWorld and Integra batch jobs and schedules.	Our work on IT general controls has not identified any significant issues on these matters in 2020/21.
X	2018/19	**Officers Remuneration disclosure** We reported a significant proportion of the senior officer remuneration, remuneration bands >£50k and exit package notes were inconsistent with underlying evidence. The disclosure was restated in its entirety. We recommended your 2019/20 closedown, HR/Payroll related disclosure should be subject to senior officer review for consistency with supporting evidence.	Our work on the 2020/21 financial statements has found that this issue has not been addressed as we noted the significant changes to be made on the officers remuneration disclosure note.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
X	2019/20	**Salary Capitalisation** 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. Additionally, the method for capturing direct costs was not possible and the Council had to estimate the time staff had spent on capital projects to judge what the capital spend would have been. This causes a risk that ineligible salary costs are capitalised.	Our work on the 2020/21 financial statements has found that this issue has not been addressed as approximately £886k worth of staff costs had been incorrectly capitalised.
✓	2019/20	**Bad Debt Provision** The Council is required to consider the expected credit loss across its variety of Debtors. Within the Council tax bad debt provision, we identified significant deficiencies in the model used to determine the provision. As a result of this work, the Council reviewed its model and provided us assurance that the estimate was not materially misstated. We also note that the Council had no policy in place for determining expected credit loss for Trade debtors. Although we were satisfied the provision was not unreasonable for this financial year, following further work by the Council, it was clear the council had not been applying the expected credit loss model per IFRS 9 when assessing their provision for trade debtors.	Our work on the 2020/21 financial statements has not identified any significant issues on the 2020/21 excepted credit losses calculation.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
X	2019/20	**School bank accounts (Academies)** Our testing identified academies bank accounts with cash balances that should have been transferred to the respective academies. Risk that academies balances and reserves are incorrectly recognised as Council reserves.	Our work on the 2020/21 financial statements has identified that this issue still exists. Academies bank accounts are still included within the cash balances in the 2020/21 financial statements. We estimated that the effect of including academies in the bank balance as at 31/3/2021, leads to an overstatement of £353k on the cash balance.
X	2019/20	**Journals** 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. No audit evidence could be provided to demonstrate that a key management control was operating as designed increasing the risk or error and misclassification.	Our work on the 2020/21 financial statements has identified that this issue still exists.
✓	2019/20	**PPE valuations** We note that £0.68m assets have not been valued within the last five years which is not in accordance with the Code and your accounting policy.	Our work on the 2020/21 financial statements has not identified any significant issues on this item.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
X	2019/20	**Cash and bank (reconciling items)** We note from our creditor bank account testing that 4 out of our sample of 5 reconciling items remain uncleared as of 30 September 2020, some 6 months after year end. We note that the Treasury and Exchequer team were unable to provide evidence of who had authorised payment in 3 out of the 4 reconciling items. There is a risk that payments may be authorised without appropriate approval. .	Our work on the 2020/21 financial statements has identified that this issue still exists. We recommend that reconciling items are cleared on a timely basis. We noted an item with the value of £25k within the bank suspense reconciliation that we do not agree that it should have been included. We also recommend that this bank suspense account should then be considered as part of the general account bank reconciliation rather than being considered in isolation to avoid issues with the bank reconciliation process.
✓	2019/20	**Going concern** Management prepare a going concern paper for audit purposes to support the going concern basis of the accounts. A similar paper is prepared for Those Charged with Governance (Audit Committee). Such a paper is considered to be good practice.	Management prepared a paper to support the going concern assessment for the 2020/21 financial year.
TBD	2019/20	**Minimum Revenue Provision** The impact of this change for 2019/20 is that under a 'corrected' calculation of your capital financing requirement (includes Adjustment A that had been excluded from 2015/16 and the removal of double counting of SCA approvals) the MRP on an annuity basis would be £3.371m. The actual MRP charge in 2019/20 is £1k. The Council intend to charge to the accounts £1k for the following 5 years. The 'calculated' MRP charge based on its adopted methodology for the period 2019/20 to 2025/26 is £19.96m.	To be determined

Assessment

✓ Action completed

X Not yet addressed

TBD To be determined

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
✓	2019/20	**Creditors (Note 33)** Our sample testing of creditors identified two errors in 2019/20 as follows: • Collection fund income that was incorrectly classified as deferred income, and • Creditor balance with no supporting evidence. Management believe the creditor was several years old and should have been written off. Risk that creditor balance may be misstated.	Our work on the 2020/21 financial statements has identified no significant issues with the creditors testing.
✓	2019/20	**MCG Financial Oversight** As part of our review and testing of receivables as at 31 March 2020, we note a debtor of £4.1m with MCG of which £2.7m related to debtors greater than one year old. We challenged management if trade receivables greater than one year should be impaired in line with the Council's policy. Management confirmed there was no current policy for impairment of trade receivables greater than one year. Risk that expected credit losses of trade receivables greater than one year are understated.	Our work on the 2020/21 financial statements has identified no significant issues with the receivables testing.
X	2019/20	**Disclosures** Our work identified a number of disclosure errors within the draft accounts. This created additional audit work and amendments within the Council's accounts.	Our work to date has identified a number of disclosure errors within the 2020/21 financial statements. We recommend management tighten the quality checks around the Council's draft accounts.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
X	2019/20	**Identifying Internal recharges** Our testing identified elements of internal recharges had been incorrectly included in CIES income and expenditure. This resulted both income and expenditure had been overstated. This was due to departments not posting journals in a way that allowed internal recharges to be identified consistently and accurately. This creates a risk going forward that income and expenditure will be overstated in the Council's financial statements.	Our work on the 2020/21 financial statements has identified that this issue still exists. We estimated the impact in the 2020/21 accounts at £682k In addition to this, we recommend that supporting working papers to the accounts should clearly identify the individual recharge transactions which were stripped out of the CIES income and expenditure statement to allow separate audit testing.
✓	2019/20	**Journals** Our review of the trial balance identified a journal posted after the draft statements were produced. This was a Journal that was posted in error reclassifying £5,000k between short term creditors, short term debtors and short term borrowings. A subsequent review by the finance team identified this Journal was posted in error. Risk that post journal amendments to the accounts are inappropriately posted in the trial balance	Our work on the 2020/21 financial statements has not identified any significant matters on the reconciliation of journals to the trial balance.
x	2019/20	**IFRS 16 Leases (Note 2)** The implementation of IFRS 16 has been further delayed to 1 April 2024. The Council's IFRS 16 disclosure in 2023/24 will need to include the estimated impact on the financial statements as at 31 March 2024. We will review the estimated impact on the assets, liabilities, income, expenditure and reserves within the financial statements as at 31 March 2024 as part of the 2023/24 audit.	To be addressed and reviewed as part of the 2023/24 audit.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Financial year first identified	Issue and risk previously communicated	Auditors' commentary
✓	2019/20	**Collection Fund Creditors and Receivables** At the year end, the Council closes down its accounts and cash position based on Integra. As at 31 March 2020, the Council had collected £1.9m more business rates than was shown on Northgate. The impact is the Council's Collection Fund Receivables is reduced as a result. However, the Council at year end adjusted its Collection Fund Receivables/Creditors based on the Northgate system rather than Integra. The latter due to timing differences has not reflected the reduction in the debtors position. To balance Integra, the Council credited Collection Fund creditors with an equal value resulting in both debtors and creditors being overstated by £1.9m. The treatment above is a balance movement with no impact on general reserves.	Our work on the 2020/21 financial statements has not identified any significant matters on the collection fund creditors and receivables.
✓	2019/20	**Cash Accounts not correctly input within the General Ledger** We identified a number of Bank accounts that were not disclosed in the General ledger, that were in the councils main bank statement. We tested 5 of these accounts and identified that 3 were third party accounts and correctly excluded. However two were noted by the council as accounts that the council owned and should be included within their Statement of accounts. The balance of these two accounts was £58k. This creates the possible risk of misappropriation of assets or the failure to effectively oversee and monitor the Council's bank accounts.	Our work on the 2020/21 financial statements has not identified the bank accounts of the council

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

The table below presents all adjusted misstatements agreed with management to date. The table shows the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 26 – Financial instruments Our testing of Council borrowings identified short term borrowing incorrectly classified as long term borrowings. DR Long Term Borrowings CR Short Term Borrowings	nil	1,600 (1,600)	nil
CIES, Note 8 and Note 17- Grant income Our testing has identified that the council had overstated its income and expenditure in relation to the Better Care fund. This has no impact on the Deficit on Provision of Services.	14,600 (14,600)	nil	nil
Balance sheet & Note 21 - PPE Difference between asset valuation per valuer and amount in FAR. FAR is higher than valuation report	516	(516)	nil
Balance sheet & Infrastructure assets Note 21 Management re-estimated depreciation for 2020-21 at £5,556k from £9,049k - A change of £3,493k.	(3,493)	3,493	nil
Overall impact	(2,977)	2,977	nil

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified to date during the audit which have been agreed with management to be made in the final set of financial statements.

Disclosure finding	Auditor recommendations
Cashflow statement and related note	The following adjustments will be made: -Adjustment to the comparatives for increase/decrease in debtors and creditors as they do not match the prior year figures. -An adjustment to be made amounting for £5m in Note 41, comparative balances for a non-cash movement, which the Authority failed to account for in the prior year. - An adjustment to be made transferring £25m from both ST and LT borrowings cash receipts to the non-cash movement column.
Note 3 – Critical judgements	This note is important as it highlights to the reader of the accounts, key judgements made by management in the interpretation of accounting standards. This note is expected to make clear the nature of the judgement made and the impact in quantitative terms of the judgement adopted. In some instances, the original disclosures made were not clear as to the judgement or the impact. We have requested that management make recommended changes to the note and this has been actioned.
Note 4 – Estimation uncertainty	This note is important as it highlights those areas of the accounts that are based on estimation and have the potential to materially change over the next 12 months. Standards require that a sensitivity analysis is disclosed for any estimate highlighted. The original disclosures made by the Council did not fully meet the requirements of accounting standards. We have requested that management make recommended changes to the note.
Note 11 – Taxation & Non-Specific Grant Income and Expenditure and Note 17 – Grant income	A presentational error has been noted in Note 11. Approximately £24million of grant income should move from the council tax income and NNDR income line to the 'Non-ringfenced government grants' line. This reclassified grant income has now been included as part of Note 17. This was initially missed off the disclosure note.
Note 14 – Officers Remuneration	Our testing has identified that changes are required to the disclosure note.
Note 15 – External Audit costs	Our testing has identified that the changes are required to the note to match the agreed proposed fee for 2020/21
Note 21 – Property, plant and equipment	Our testing has identified that the comparative note for 2019/20 was omitted. In addition, Surplus assets FV hierarchy disclosure should also include a description of the inputs. Our testing has also identified that the capital commitment disclosure within the note should be adjusted from £23million to £17.6million.
Note 28– Capital Expenditure & Capital Financing	Our testing identified that the loan Medway council made to the subsidiary MDC ltd for capital purposes of approximately £13m was initially missed off the disclosure note.

C. Audit Adjustments

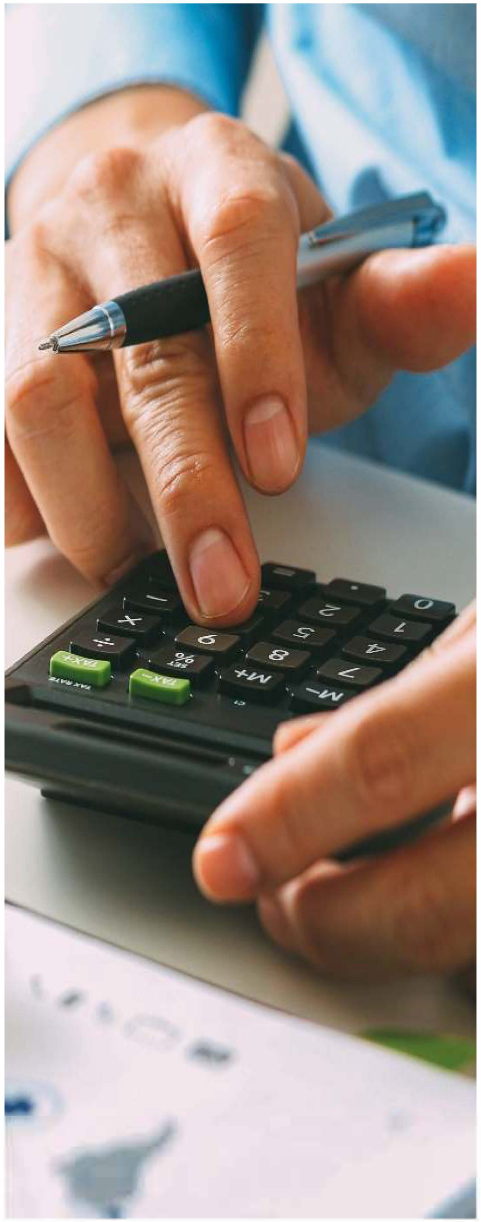
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified to date during the audit which have been agreed with management to be made in the final set of financial statements.

Disclosure finding	Auditor recommendations
Note 37 – Defined Benefit Pension Schemes	Our testing has identified that in the sensitivity analysis table, "Adjustment to life expectation assumption in the current draft account is showing £21,124k however, per actuary report it should be £32,841k. Adjustment required to disclosure to match actuary report.
Note 43 – Contingent Liabilities	Our testing has identified that the LIDL & Cotton case should not be considered as a contingent liability, therefore should be excluded from the note.
Other notes to the accounts (MIRS, Note 9, 10, 20, 21, 26, 27, 29, 35, 38)	A number of disclosure amendments have been recommended to management. Management should review mathematical accuracy, presentation, and/ or prior year disclosures of the notes as discussed.
Group accounts	A number of disclosure amendments have been recommended to management which include: CIES comparatives, Balance sheet presentation ,Movement in reserves statement, to include inventory note, and adjustments to group Note 1, 5 & 6

C. Audit Adjustments

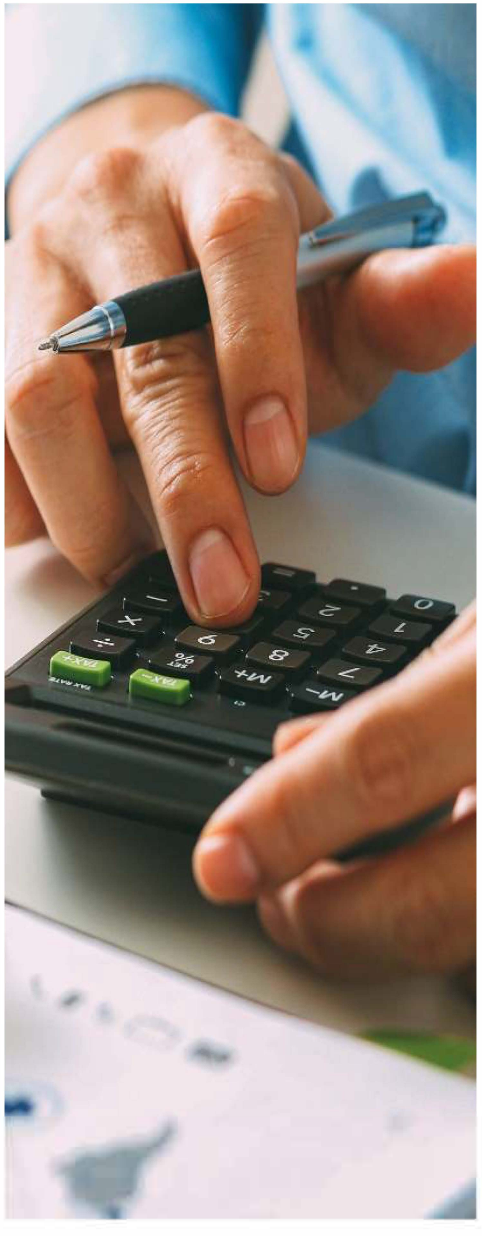


Impact of unadjusted misstatements

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Estimated missed accrual from revenue expenditure testing Estimated missed accrual of revenue expenditure following completeness of expenditure testing.	563	nil	563
Estimated missed accrual from capital expenditure testing Estimated missed accrual of capital expenditure following completeness of expenditure testing.	nil	514	nil
PPE Additions – error identified in over capitalisation of staff costs DR Expenditure CR PPE	886	(886)	886
Overall impact	£886 to £1,449	(372) to (886)	£886 to £1,449

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Collection Fund Creditors - we identified three errors within the Collection Fund Creditors as follows - difference between Integra and the Northgate Collection Fund system resulting in creditors and debtors being overstated (£1,923k) - 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	nil	1,657 (1,657)	nil
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	(670)	(670)	(1,491) to (2,235)

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit – Scale fee published by PSAA for 2020/21	£109,687	£109,687
Increased to scale fee 2020/21:		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£26,000
Increased audit requirements of revised ISAs	£17,000	£17,000
Raising the bar/regulatory factors	£8,900	£8,900
Group accounts	£6,000	TBD
Complexity of audit	£10,000	TBD
Enhanced audit procedures for Property, Plant and Equipment	£9,000	TBD
Enhanced audit procedures for Pensions	£3,500	TBD
Total audit fees (excluding VAT)	£190,087	TBD

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit subsidy claim	£29,750	£56,000
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	£7,500	TBD
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	£6,000	TBD
No non-audit related services		
Total non-audit fees (excluding VAT)	£43,250	TBD

The proposed fees does not currently reconcile to Note 15 in the draft financial statements. We have communicated this to management as part of our audit findings to be amended accordingly.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an modified audit report due to the significant weakness identified in VFM arrangement.

Independent auditor's report to the members of Medway Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Medway Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

- We enquired of senior officers and the audit committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of senior officers, internal audit and the audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, the risk of improper revenue recognition (rebutted) and the risk of fraud in expenditure recognition (rebutted). We determined that the principal risks were in relation to journal entries and management bias in the calculation of estimates.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the [Chief Finance Officer] has in place to prevent and detect fraud;

- journal entry testing, with a focus on the journals deemed to be high risk. We considered all journal entries for fraud and set specific criteria to identify entries we considered to be high risk. Such criteria included journals containing keywords which might indicate fraud and journals posted after year end.

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's auditors'.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  -the provisions of the applicable legislation
  - guidance issued by CIPFA, LASAAC and SOLACE
  - the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:
- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter except on the 3rd November 2022,we identified a significant weakness in the Council's arrangements for Improving Economy, efficiency and effectiveness in the Children's services and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We raised a key recommendation around medium term financial strategic planning and other areas of improvement required for the Children's Service.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

E. Audit opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Medway Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name:

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

[Office location**]**

Date:

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Click here and enter office address]

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

[Enter Client Name]

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Medway Council and its subsidiary undertaking[s], Kyndi Limited and Medway Development Company Limited for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council 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 2020/21 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 group and 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 2021/22 ("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 group and 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 group and Council 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. Such accounting estimates include valuation of the net pension liability, the valuation of land and buildings, the valuation of investment property and surplus assets, depreciation, provisions, fair value estimates, accruals and credit loss allowances. 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. We understand our responsibilities includes identifying and considering 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 estimate used.

During the year we evaluated our estimation process for the useful economic lives of infrastructure assets, and the valuation method of property, plant and equipment the following changes to estimation process were made[…] We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

F. Management Letter of Representation

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.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and]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 disclosures changes schedules included in your Audit Findings Report. The group and Council 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. 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 OR list reasons]. 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. The prior period adjustments disclosed in the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and 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 :

- a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

F. Management Letter of Representation

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's 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, from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. 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.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and 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.

xxiii. 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.

xxiv. 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.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. 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

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on the 16 March 2023.

Yours faithfully

Name.................................

Position.............................

Date.................................