



Informing the audit risk assessment for Medway Council 2023/24



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 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 your business or any 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.

Table of Contents

| Section | Page |
|--|-------------|
| Purpose | 4 |
| General Enquiries of Management | 6 |
| Fraud | 9 |
| Fraud Risk Assessment | 10 |
| Laws and Regulations | 15 |
| Impact of Laws and Regulations | 16 |
| Related Parties | 18 |
| Going Concern | 20 |
| Accounting Estimates | 22 |
| Accounting Estimates - General Enquiries of Management | 23 |
| Appendix A – Accounting Estimates | 26 |

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Medway Council's external auditors and Medway Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA (UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|---|--|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p> | <p>The audit backlogs resulting from the Covid-19 pandemic, and the agreement not to audit Medway's statements for 2021/22 and 2022/23, particularly the verification of brought forward balances in the 2023/24 audit.</p> <p>The Council's financial position and the government being 'minded to' approve a capitalisation direction for 2024/25.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Medway Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p> | <p>We review our accounting policies annually in advance of the preparation of the statements, and there have not been any events or transactions which have caused us to change or adopt new accounting policies this year.</p> |
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>We do not use complex financial instruments such as derivatives. We have simple cash deposits and loans and aside from the usual debtors, creditors (including borrowings) and cash our only financial instruments are our investment in the collective property funds (approximately £23m at original cost) and our investment of day to day cash in the money market fund operated by CCLA.</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>The Council invested £5million into the Lothbury managed property fund but during 2023/24 the fund lost a significant proportion of its value, investors voted against a merger and the fund will be wound up in Q1 2024/25. The value of the Council's investment as at 31/03/24 was £3.650million, and we created a provision for the loss of £1.350million in the accounts for 2023/24.</p> |

General Enquiries of Management

| Question | Management response |
|--|--|
| <p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p> | <p>The discovery of RAAC in the Council's Headquarters building, Gun Wharf represents an impairment in the value of the asset of c£5million, however the Council has agreed to borrow £20m to repair and redevelop the site through the capital programme.</p> <p>The Council invested £5million into the Lothbury managed property fund but during 2023/24 the fund lost a significant proportion of its value, investors voted against a merger and the fund will be wound up in Q1 2024/25. The value of the Council's investment as at 31/03/24 was £3.650million, and we created a provision for the loss of £1.350million in the accounts for 2023/24.</p> <p>Besides these, we are not aware of any besides those arising from revaluation of our assets.</p> |
| <p>6. Are you aware of any guarantee contracts? If so, please provide further details</p> | <p>Staff transferred to Medway Norse and Medway Commercial Group (now Kyndi) under TUPE arrangements may remain in the Kent Local Government Pension Scheme (KLGPS) as both have admitted body status. The agreement with KLGPS to admit such bodies requires Medway Council to act as guarantor should either organisation be unable to meet its pension fund liabilities. We are not aware of any significant risk of either organisation being unable to meet their liabilities.</p> <p>The Council has issued parent company guarantees in respect of the loans to MDC.</p> |
| <p>7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details</p> | <p>We seek assurances from the Monitoring Officer, ultimately through the Annual Governance Statement though we are not aware of any such claims.</p> |
| <p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Medway Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p> | <p>The Council has an in-house legal team who conduct the majority of legal activity for the Council.</p> |

General Enquiries of Management

| Question | Management response |
|---|--|
| 9. Have any of the Medway Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details | No |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | During the year we have sought advice from CIPFA (via the advisory networks), Pixel Financial and LG Futures for their funding advisory services, LG Futures for their collection fund advice, Link Asset Services for Treasury Management advice, and PSTAX for taxation advice including VAT. |
| 11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details | Except for loans to subsidiaries the Council does not have any significant loans to other parties, nor significant investments other than the collective property funds (held at fair value) and the LVNAV (low volatility net asset value) day to day cash held in the CCLA money market funds. All other financial assets are subject to general and specific bad debt provisions. |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Medway Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Medway Council's management.

Fraud risk assessment

| Question | Management response |
|--|--|
| <p>1. Has Medway Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p> | <p>We do not believe our financial statements may be materially misstated due to fraud. The Council has a Counter Fraud Team that conducts fraud risk assessments, proactive counter fraud work and investigation activity as required and the Head of Internal Audit & Counter Fraud includes fraud risks as part of the process to develop the audit plans each year. The service reports their findings to the Audit Committee on a quarterly basis and information on the number of all suspected, alleged or actual frauds are reported to the Committee in the Annual Counter Fraud Report. However, no fraud or specific fraud risk relating to the Statements has been alleged or identified.</p> <p>The Council's Strategic Risk Management function is responsible for maintaining the corporate risk strategy and risk register. A summary of the primary risks as stated in the Council's risk register is included in the Narrative Statement of Accounts and all decision-making reports to Members, including the budget, monitoring and statement of accounts include an assessment of risk. Though finance is one of the highest rated risks on the Council's Corporate Risk Register, this primarily relates to changes in how the Council is funded and we have not identified any significant risk relating to the financial reporting of the Council.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>The areas considered most likely to be targeted by those attempting to defraud the public purse are those with high volume relatively low value transactions, such as applications for council tax or business rate discounts/exemptions. However, there are other areas of fraud risk in areas such as housing, where there is a potential for significant gain if a fraudulent application for housing were to be successful.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Medway Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p> | <p>As set out at question 1 above, the Head of Internal Audit & Counter Fraud considers fraud risk as part of a wider assessment process to develop the audit and counter fraud plans each. The counter fraud plan includes areas such as awareness and prevention, pro-active activity to identify fraud and error including external data matching exercises such as the National Fraud Initiative, and investigations into referrals of suspected fraud or malpractice.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>The work of the Audit & Counter Fraud team, including details of any suspected fraud or control weaknesses, is reported on a quarterly basis to the Audit Committee.</p> <p>The Annual Governance Statement represents a summary of the organisation's activities to assess the control environment and the AGS for 2023/24 will be considered by the Audit Committee at their meeting in September 2024.</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Medway Council where fraud is more likely to occur?</p> | <p>The Head of Internal Audit & Counter Fraud service considers fraud risks as part of the process to develop the annual counter fraud plan each year, which details the specific areas of counter-fraud work to be delivered, including a programme of specific fraud risk assessments. The Counter Fraud update reports and annual report to Audit Committee detail the suspected, alleged and actual fraud identified each year. Given the scale of the organisation, its activities and financial transactions some fraud is considered likely despite the strong governance and control framework in place as demonstrated in our Annual Governance Statement.</p> <p>At present, the areas considered most likely to be targeted by those attempting to defraud the public purse are those with high volume relatively low value transactions. However, once the programme of fraud risk assessments has been completed with services, a fraud risk register will be produced. This register will be used to direct resources to pro-active activity in the highest risk areas.</p> <p>The Internal Audit planning risk assessment aims to direct sufficient resources to such areas to ensure the control framework is robust in design and operating effectively. The fraud risk assessments will also inform this process in future.</p> |
| <p>6. What processes do Medway Council have in place to identify and respond to risks of fraud?</p> | <p>The Head of Internal Audit & Counter Fraud considers fraud risk as part of a wider assessment process to develop the audit and counter fraud plans each. The counter fraud plan includes areas such as awareness and prevention, pro-active activity to identify fraud and error including external data matching exercises such as the National Fraud Initiative, and investigations into referrals of suspected fraud or malpractice.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>7. How do you assess the overall control environment for Medway Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>The Annual Governance Statement represents a summary of the organisation's activities to assess the control environment and the AGS for 2023/24 will be considered by the Audit Committee at their meeting in September 2024. The primary source of assurance over the council's control environment is the work and reports of the Internal Audit team.</p> <p>Any areas of control weakness identified during internal audit reviews have management actions agreed to mitigate those risks. The internal audit team has a follow up process in place to ensure these actions are implemented and the controls are enhanced.</p> <p>The council has an anti-fraud and corruption strategy in place outlining its approach to tackle fraud and actively takes part in national schemes such as the NFI to identify potential instances of fraud. It is also part of the Kent Intelligence Network, which looks at data sharing at a more local level to identify potential fraud.</p> <p>The counter fraud team provide fraud awareness training to staff and Members to increase awareness and enhance prevention and there is publicity of successful cases to act as a deterrent. The team are currently completing fraud risk assessments across a range of services to produce a fraud risk register.</p> <p>It is accepted that potential override of control is a risk that exists in any organisation, however, the work of Internal Audit and Counter Fraud has not identified anything to suggest that there are any areas of concerns at this time.</p> |
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>The work of Internal Audit and Counter Fraud has not identified anything to suggest that there are any areas of concern at this time.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>9. How does Medway Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from staff to make sure that public business is conducted with fairness and integrity. The Council also publishes its Anti-Fraud and Corruption Strategy, which outlines our approach to tackling fraud and the expectations of staff, elected Members and contractors. The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate. Staff are encouraged to report concerns through awareness training and publication of the Speak Up (Whistleblowing) policy. There is an expectation that staff will report any concerns about suspected fraud and clear channels have been identified to do so.</p> <p>There have been no significant issues reported relating to fraud within the Council, however a number of reports have been received from staff in relation to third party fraud in areas such as Council Tax and Housing.</p> |
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>Any post involving financial transactions or ability to approve the award of monies, goods or services, or authorise contracts would be considered high risk. These risks are managed through segregation of duties, quality control checks and where necessary, independent assurance from internal audit.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>We are not aware of any related party transactions that pose a significant risk of fraud. In the production of our accounts, we follow a process by which we ask for returns from all elected Members and senior officers to determine any potential related parties, which we then analyse and disclose as appropriate.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>Fraud risk assessments are being undertaken across various services in the council to identify fraud risks and existing prevention controls, and more in depth fraud proofing reviews may be undertaken in the areas identified as being the highest risk, which will focus on processes where those attempting to commit fraud may attempt to circumvent controls. The findings and any subsequent actions to improve controls will be reported to the Audit Committee in the same manner as internal audit reviews.</p> <p>All counter fraud and investigation activity is reported to the Audit Committee as part of the Counter Fraud update reports and annual report to ensure they have full oversight of how the Council has responded to fraud risks. This includes information about the volume of cases investigated and the financial savings identified.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>A summary of reports made under the Council's Speak Up Policy is reported to Audit Committee annually. The Monitoring Officer co-ordinates the Annual Governance Review and prepares the AGS each year and this has not disclosed any significant issues arising from this mechanism.</p> |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | <p>There have been no reports made under the Bribery Act in the 2023/24 financial year.</p> |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Medway Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

| Question | Management response |
|---|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Medway Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> | <p>The Annual Governance Statement for 2023/24 will be considered by Corporate Management Team ahead of being reported to the Audit Committee in September 2024. The AGS will outline the results of the review of the Council's compliance with our Code of Corporate Governance including the constitution, policies, training and assurances from the Corporate Management Team and Monitoring Officer that all relevant laws and regulations have been complied with. For 2023/24 this exercise will include seeking assurance from a wider variety of sources, including compliance questionnaires to be completed by senior officers.</p> |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>See Q1 above, as the AGS will be developed based on a broader range of assurance this year and considered by CMT ahead of being reported to the Audit Committee.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p> | <p>No. Any such non-compliance would be disclosed via the AGS.</p> |
| <p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p> | <p>See General Management Enquiries Q7.</p> |

Impact of laws and regulations

| Question | Management response |
|---|---|
| <p>5. What arrangements does Medway Council have in place to identify, evaluate and account for litigation or claims?</p> | <p>The Council's monitoring officer and in house Legal Services team are responsible for ensuring the Council complies with Laws and Regulations as set out in the Code of Corporate Governance and the Annual Governance Statement. This is also a consideration through the budget monitoring, with both Legal Services and the rest of the council considering likely legal costs/claims in their forecasts. Any significant costs/liabilities would be flagged and discussed with Finance/at Corporate Management Team and at year end, we would reflect a contingent liability or a provision in our Statement of Accounts as appropriate.</p> |
| <p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p> | <p>Ofsted conducted an inspection of the Council's Children's Services and issued an Inadequate judgement in 2019, however the reinspection in 2023 concluded that the service is now Good.</p> |

Related Parties

Matters in relation to Related Parties

Medway Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Medway Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council's;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|--|--|
| <p>1. Have there been any changes in the related parties including those disclosed in Medway Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Medway Council • whether Medway Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions | <p>There have been no changes to related parties from 2022/23.</p> |
| <p>2. What controls does Medway Council have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>Officers and Members work within a code of conduct. Each year Members and Officers are requested to complete a form detailing any potential related parties. For Members, these are cross-checked with the Register of Members Interests and Companies House. Once a list of related parties has been agreed, reports are requested from the finance system to determine income and expenditure transactions for the reporting period together with any outstanding balances at the end of that period.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>The Council has controls in place to determine authorisation of transactions and the awarding of contracts to third parties. Authorisation limits for officers are awarded based upon the seniority of the post and the nature of the works carried out. All expenditure transactions must be approved by officers and separation of duties will mean that no officer could authorise a payment they have requested.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>The Council's constitution sets out the decision-making rules, scheme of delegations and financial rules and limits in place and is approved by Full Council. All decisions and transactions must comply with the constitution, so in any conditions required outside the normal course of business (i.e. in an emergency incident) the Urgency provisions may be enacted enabling the Leader to make decisions on behalf of the Cabinet, and the Chief Executive on behalf of the Council.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|---|--|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Medway Council will no longer continue?</p> | <p>During 2023/24 Corporate Management Team and the Cabinet received quarterly financial monitoring reports covering both revenue and capital budget forecasts. Ahead of publishing the Draft Budget each year, in the Autumn a Financial Outlook is reported to CMT and Cabinet projecting the revenue budget requirement and anticipated funding for the year ahead and across the medium term. This is reported alongside a Capital Strategy setting out capital aspirations and resource availability over the medium term. In February 2024 the budget for 2024/25 was presented to the Cabinet and Council alongside a set of Medium Term Financial Projections. For 2024/25 the Council has moved to monthly revenue budget monitoring to CMT level and privately with the Cabinet, while public reporting via formal Cabinet meetings will continue to be quarterly. Recognising that the Financial Outlook and Draft Budget represented a potential budget gap beyond the Council's ability to close for 2024/25, the Council commissioned CIPFA to conduct a resilience review and ultimately the Council applied to the government for Exceptional Financial Support to balance the budget.</p> |
| <p>2. Are management aware of any factors which may mean for Medway Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>Demand for, and the cost of statutory services including social care, education (particularly SEND transport) and homelessness are far in excess of the Council's ability to increase income. The MTFP published alongside the budget projects that it will be necessary for the Council to seek Exceptional Financial Support to balance the budget for 2025/26 but we aim to balance the budget unassisted by 2026/27. Should the government not grant the EFS requests, it is highly likely that it would be necessary to cut services.</p> |
| <p>3. With regard to the statutory services currently provided by Medway Council, does Medway Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Medway Council to cease to exist?</p> | <p>See Q3 above, however all available funding would be directed to the provision of statutory services, resulting in cuts to all other services currently delivered. As a result, Medway Council expects to continue to provide all statutory services except to the extent that some services are provided by shared service arrangements.</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

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

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

Specifically do Audit Committee members:

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

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | These are generally Property, Plant & Equipment and Pensions, due to the size of the assets/liabilities held on the balance sheet. |
| 2. How does the Council's risk management process identify and address risks relating to accounting estimates? | The Council's Risk Management Strategy aims to ensure that effective risk management is applied at all levels of management and service delivery, with all officers responsible for managing risks in the course of their normal duties. The risk of a material misstatement due to the accuracy of estimates is managed through the use of expert advisors/services both internal and external, and through the role of the Finance team in validating estimates produced. |
| 3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | The major concerns are around the valuation of the assets/liabilities, so management review the various methods/assumptions to ensure they produce the most accurate result, and where estimates are given ensure the assumptions upon which they are based are the most realistic. This can be done by raising robust challenges with those producing the assumptions, and should they not pass that challenge, then changes would be requested to inform the financial statements. |
| 4. How do management review the outcomes of previous accounting estimates? | This will involve reviewing data and comparing it to that produced as part of the original assumptions. Should those assumptions be found to be inaccurate, then further work will be carried out to ensure where possible that either information streams are improved, or different calculations are made to ensure future accuracy. In the cases where, circumstances have changed since the estimate was produced, then those reasons will be made available to aid understanding. |
| 5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these? | There were no changes to the process in 2023/24. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates? | This is done by questions being raised with those experts producing the information/assumptions upon which estimates are based. Whilst accountants may have a base knowledge, they are reliant upon experts such as property valuers/actuaries and ensure these are as accurate as possible by providing robust challenge where necessary. |
| 7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | This is done through ensuring specifications for works are provided in line with the requirements of CIPFA's Accounting Code of Practice, relevant legislation and accounting standards. |
| 8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | This will be done through internal controls such as performance development reviews and internal service agreements for internal services and contract specifications, monitoring and review for external providers. |
| 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | The financial statements, including working papers are approved by the section 151 officer prior to the audit, who will raise challenge where appropriate relating to the accounting estimates. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? | Management are not aware of any other transactions in addition to those included in Appendix A. |
| 11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable? | Management are satisfied that the accounting estimates are reasonable as they have been prepared with regard to the relevant codes/guidance and with the engagement of independent experts. |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | The Section 151 Officer approves the financial statements and provides assurance to both the Audit Committee Chair and the wider Audit Committee membership that arrangements are adequate in coming to his judgement surrounding the true and fair nature of the financial statements presented for audit. |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------|--|--|---|--|---|
| Land and buildings valuations | Check as to the valuation method dependent upon the category of asset | CIPFA Accounting Code of Practice and Guidance Notes | The Council currently has internal RICS qualified valuers | There is currently a risk of material uncertainty, but the council is unable to quantify the risk. | No |
| Investment property valuations | Fair Value/Market-Price Models | Review of Fair Value levels and the basis of each method for each asset | The Council Currently has Internal RICS qualified valuers | There is currently a risk of material uncertainty, but the council is unable to quantify the risk. | No |
| Depreciation | Generally straight-line using data held within the Property Database within the Council's finance system | Check of data (including value/remaining life and depreciation cost code | Completed by Technical Accountant using approved software | The degree of uncertainty is determined by the possible material uncertainty within the asset valuations at the end of the reporting period. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---|---|--|--|---|---|
| Valuation of defined benefit net pension fund liabilities | Using assumptions based upon accounting standard IAS 19 | Review of assumptions to ensure they are reasonable | Yes – Actuary | A major degree of uncertainty will be the performance of the markets going forward. | No |
| NNDR Appeals provision | Using assumptions based on the advice of experts | Monthly monitoring to identify changes/patterns via reports from Analyse Local supplemented with local knowledge to identify any risks | Yes – Analyse Local | <p>Assessment of degree of uncertainty: Appeals against the 2017 rating list are mostly complete so very low uncertainty remains around estimates. There is however much less certainty about the provision in respect of the 2023 rating list.</p> <p>Consideration of alternative estimates: A number of calculations were performed and considered to ensure that the approach used was robust and prudent, and in line with local patterns and expert advice.</p> | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------------------------|---|--|--|---|---|
| Provisions | Based upon outstanding values detailed in finance system | Controls in place within the finance system | Produced by accountants | Unlikely to be any material uncertainty due to data provided e.g. through the Business rates system to inform the amounts posted to the finance system. | No |
| Accruals | Based upon outstanding invoices for services/goods provided/received | Guidance send to managers to help determine amounts to be accrued | Guidance produced by accountants | Accountants provide check for all accruals so degree of uncertainty is considered trivial | No |
| Credit loss and impairment allowances | Based upon age of outstanding debt and amount outstanding together with credit rating of third party if applicable. | Reports obtained from finance system together with other information, where applicable from financial advisors | Where necessary, our financial advisors Link | Dependant upon the individual / organisation concerned and their financial position. This has been an issue during the pandemic but where considered material (local taxation) Government help has been issued in the form of grants. | No |

Appendix A Accounting Estimates (Continued)

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------------|---|---|--|--|---|
| Finance lease liabilities | These have been based upon actual lease payments due in future years. Embedded lease liabilities have been based upon an annuity basis. | Information is obtained from the property team and services to determine the data used in the calculation which is checked for accuracy by accountants. | Property valued by RICS experts. Embedded ease calculations produced by accountants. | Value of property could be subject to uncertainty but due to value and small number of assets, this will not be material. Embedded leases based upon cost value of assets which is unlikely to be materially inaccurate. | No |