Grant Thornton

Indicative External Audit Plan

Medway Council

Year ending 31 March 2024

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Contents

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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.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

Local context

We are aware of the financial difficulties currently facing the Council. In the initial monitoring round in August 2023 for the 2023/24 financial year, an overspend of £17.3 million was projected. In the second round of the Council's revenue budget monitoring, there was an improvement of £5.016 million from the position reported at Round 1. During the third round of budget monitoring, urgent actions were instructed by the Cabinet to align expenditure with the budget approved by Full Council. These actions included recommendations to declassify earmarked reserves, transferring funds to general reserves. The Council, recognizing limited opportunities for additional funding, has sought governmental support. In February 2024, the government granted the Council's request for exceptional financial support to prevent effective bankruptcy. This support was crucial, as without it, the Council would not have been able to develop a credible budget, potentially leading to the declaration of a Section 114 notice.

In planning our audit, we have taken account of this national and local context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters - continued

Audit Reporting Delays

There have been significant delays in completing audit work and issuing audit opinions across the local government sector nationwide. Two consultations were released in February 2024 in response to this issue. One consultation by DLUHC sought views on introducing backstop dates for the publication of audited accounts in the Accounts and Audit Regulations 2015. The other consultation by the NAO sought views on changes to the Code of Audit Practice to support auditors in meeting backstop dates and promoting more timely reporting of their work on value for money arrangements. The Council's management team were invited to respond to these proposals, and our firm submitted comments on the proposal March 5, 2024. The outcome of the consultation is currently unknown. Notwithstanding, to ensure timely sign-off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Chief Operating Officer.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Chief Operating Officer quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- As part of our audit, we will review any previously agreed actions that were made in relation to matters identified during previous audits, whether in relation to the financial statements or arrangements to secure value for money

Key matters - continued

Our Responses (continued)

- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities; in planning this audit we have considered the financial viability of the Council. At this stage, we are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue – refer to page 8.
- We identified another audit risk relating to the ledger system upgrade– refer to page 12. Our IT auditors will carry out relevant procedures to address this risk.

Prior year disclaimer

As a result of managing the backlog, it has been discussed with management that we are likely to issue a disclaimer of opinion for the prior years audit (2021-22 and 2022-23). At the time of drafting this audit plan, the full details of the additional work required on opening balance as a result of the disclaimer of opinion had not been agreed or finalised. Discussions between the Department for Levelling Up, Housing and Communities (DLUCH) and National Audit Office (NAO), are ongoing to determine the appropriate procedures required. Once we know more about the requirements, an addendum to the audit plan will be issued.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Medway Council ('the Council') for those charged with governance.

Respective responsibilities

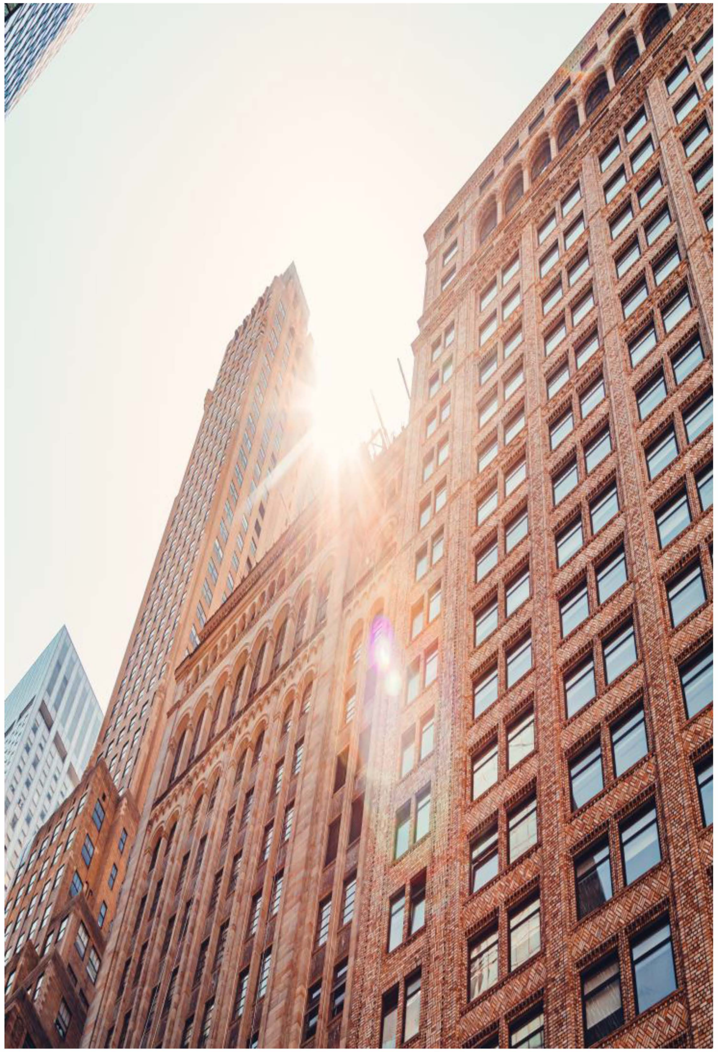
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This audit plan sets out the implications of the revised code on this audit. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Medway Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Risk of fraud in revenue recognition (rebutted for Council accounts only).
- Risk of fraud in non-pay operating expenditure and associated creditor balances.
- The risk of management override of controls.
- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of council dwellings in the accounts are materially misstated.
- The risk that the valuation of investment properties in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £8.2 million (PY 20-21: £9.0 million). This equates to 1.3% of your 2023/24 draft gross expenditure for the year.

For the group, we have determined planning materiality as £8.4million (PY 20-21: £9.2million). The draft group accounts for 23/24 was not available at the time of drafting the audit plan. Therefore, we have uplifted the Councils determined materiality for 2023-24 by £200k to derive the group materiality. This is in line with the difference in the council and group materiality for 2020-21. This materiality will be reviewed once we obtained the draft group accounts for 2023-24.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £410,000 (PY 20-21: £450,000) for the Council and £420,000 (PY 20-21: £460,000) for the Group.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of its wholly owned subsidiaries Kyndi Ltd and Medway Development Company Ltd and its joint ventures Medway Norse Limited and Medway Norse Transport.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is currently ongoing. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our initial planning visit took place in March 2024, and our final visit is set to take place from July 2024. Our planning work was not finalised in March 2024, as management focussed on producing the financial statements. We intend to pick up the outstanding planning areas during our final visit. This has been communicated to management. Our key deliverables are producing this indicative Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers, however we recognise the limited available space at the council's office in Gun Wharf due to reinforced autoclaved aerated concrete (RAAC) found at the building in 2023. Alternative arrangements will be discussed with management to ensure that the audit runs smoothly.

Our proposed fee for the audit is set out on page 31 of this report. This fee is subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

[Unless stated otherwise, references to the prior year (PY) within this report denote the last audited financial year, which was 2020-21.]

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	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.	Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the Council, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including Medway Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review. This risk is not rebutted for the Group.
Risk of fraud in non-pay operating expenditure, and associated creditor balances. [PAF Practice Note 10]	Group and Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)	These risks arise from the pressure to meet financial targets. We have rebutted this risk in relation to payroll expenditure stream as we deem the opportunity to manipulate completeness of payroll expenditure in a material way to be low. We will: • evaluate the design and implementation effectiveness of the accounts payable system. • evaluate the design and implementation effectiveness of your system for recording accruals. • search for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end. • search for unrecorded liabilities by reviewing cash payments post period end.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of their spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of other land and buildings	Group and Council	The Council carries out the valuation of its operational land and buildings on a rolling five yearly basis. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations. For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value at the financial statements date.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • test revaluations made during the year to see if they are input correctly into the Authority's asset register; • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • for all assets not formally revalued, evaluate the judgement made by management or others in determination of current value of these assets.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Council dwellings	Group and Council	The Council dwellings are subject to annual reviews and full revaluations every five years for the whole stock. The valuer has adopted the beacon approach when valuing the housing stock. This valuation approach uses a particular property or set of properties as a benchmark for assessing the value of similar properties with the same characteristics (i.e. location, size, condition, and other relevant factors). This valuation represents a significant estimate by management as the council has considered the selection of distinct Asset Groups within the housing area. These Asset Groups are chosen to reflect the areas in which individual value markets operate. The key assumption for council dwelling is the beacon valuation utilised by the valuer and our testing will therefore focus on this area.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, review the Council's valuers' reports and the assumptions that underpin the valuations; • focus our testing on the beacon valuation used by the valuer; and • test, on a sample basis, the asset groups where the beacon valuation has been applied, to ensure that the characteristics of the asset group align with the beacon and the revaluations have been applied correctly in line with the beacon valuation.
Valuation of Investment properties	Group and Council	The Council revalues its Investment Properties with a value of £100k and above on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The key assumption for investment property is the yield rates utilised by the valuer and our testing will therefore focus on this area.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, review the Council's valuers' reports and the assumptions that underpin the valuations; • focus our testing on the yield rates used by the valuer; and • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • test 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. • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Reinforced autoclaved aerated concrete (RAAC)	Council	In 2023, the Council identified RAAC concrete in its headquarters in Gun Wharf, Chatham. The building is set to undergo a programme of essential repairs and improvements. Councillors approved the addition to the capital programme of £22million, funded through a combination of borrowing, capital receipts and revenue savings.	We will: • Discuss with management and understand the steps taken to identify RAAC in its other buildings • Assess the impact of RAAC on the building's valuation. • Evaluate the adequacy of related disclosures in the financial statements.
General ledger upgrade	Council	The Council had a version upgrade of their general ledger system Integra. Following discussions with management, we discovered that the system upgrade led to some technical bugs. This caused disruptions in the Fixed Asset Module integrated within the ledger, preventing the uploading of various PP&E entries (additions, revaluations, disposals, etc.) and subsequently leading to delays in accounts production.	We will: • Test the design effectiveness of Integra. Refer to our IT audit strategy in this report for more details.
Group accounts	Group only	The financial year 2020-21 was the first year the council produced group accounts. The 2020-21 audit of the group accounts identified significant errors and deficiencies in the financial reporting. These errors resulted in restatements and adjustments, impacting the accuracy and reliability of the group accounts. As at July 5th, 2024 when this audit plan was issued, the audit team received the draft financial statements for 2023/24, which did not contain the group accounts. Management have stated that the work on the group accounts is still ongoing.	We will: • Agree consolidation schedules to supporting records • Test a sample of material consolidating adjustments to supporting records. • Review group accounting disclosures are in accordance with the Code.

Other risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Group and Council	Non-pay expenditure on goods and services represents a significant percentage (approximately 69%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	We will: • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtain and test a listing of non-pay payments made in within an assessed period to ensure that they have been charged to the appropriate year.
Accounting for PP&E capital additions	Group and Council	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.	We will; • Discuss with management and understand the steps taken to identify any potential capitalised salaries inconsistent with applications of IAS16; • Tests a sample of capitalised salaries and agree to supporting records.
Accounting for provision of credit losses	Group and Council	The Council is required to consider the expected credit loss across its variety of Debtors. We note the Council had not been applying the expected credit loss model per IFRS 9 when assessing there provision for trade debtors.	We will; • Discuss with management and understand the revised model for calculating expected credit losses for consistency with IFRS 9. • Tests adequacy of expected credit losses provision for consistency with IFRS 9.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Group audit scope and risk assessment

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.

The Group Accounts combines the financial results of:

- Medway Council;
- Kyndi Ltd and;
- Medway Development Company Ltd

Medway Norse Limited and Medway Norse Transport Limited provide services for the Council. Under IFRS 11 the Council has determined that the relationship between it and both companies are joint ventures (JV). In line with 9.1.2.61 of the CIPFA Code the Council therefore includes under cost of services, the costs charged by the companies net of rebate in the Income and Expenditure Account and have included the investment at cost in the Balance Sheet. There is a Code adaptation that requires JVs to also be included in group accounts. We will be reviewing this further as part of our audit work.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600 – Audit scope	Risks identified	Planned audit approach
Medway Council	Yes		• Detailed in pages 8 to 15 of this report	Full scope audit performed by Grant Thornton UK LLP
Kyndi Ltd	No		• No specific risks identified in relation to the subsidiary	Specific procedures performed on material expenditure balances held. Information required for the specific procedures is obtained from the subsidiary.
Medway Development Company Ltd	No		• Specific risks identified in relation to inventory balances held	Specific procedures performed on material Inventory held.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group financial statements, which resulted in 10 recommendations being reported in our 2020/21 Audit Findings Report. We will follow up on the recommendations as part of our year-end procedures

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**The Council's accrual limit for 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.	Management stated that the accrual limit will be reviewed for future years. We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**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. 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 the schools carry out their bank reconciliation as at the 31st of March each financial year to avoid any significant discrepancies with the confirmations provided by the third party banks and the information within the ledger.	We will review management implementation of the action plan as part of our year end audit procedures.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Actions management agreed to take to address the issue
TBC	**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 that your HR/Payroll related disclosure should be subject to senior officer review for consistency with supporting evidence.	We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Actions management agreed to take to address the issue
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**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.	We will review management implementation of the action plan as part of our year end audit procedures.
TBC	**IFRS 16 Leases (Note 2)** The implementation of IFRS 16 has been further delayed. The Council's IFRS 16 disclosure will need to include the estimated impact on the financial statements . We will review the estimated impact on the assets, liabilities, income, expenditure and reserves within the financial statements	We will review management implementation of the action plan as part of our year end audit procedures.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality at the planning stage of our audit is £8.2 million, which equates to 1.3% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
3	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £410,000 for the council and £420,000 for the group. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Council Amount (£)	Group Amount (£)	Qualitative factors considered
Materiality for the financial statements	£8,200,000	£8,400,000	The following factors were considered when determining the thresholds for the Council and Group: • The financial information available at the time of drafting this report • Our understanding of the internal controls in place. • Our review of prior year's auditors' reports • The strength and effectiveness of the council's internal controls over financial reporting of its group accounts. • Errors identified in prior year's auditors' reports
Performance Materiality	£4,920,000	£5,040,000	
Trivial	£410,000	£420,000	

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Integra	Financial reporting	Detailed ITGC assessment (design effectiveness only) for Council hosted controls: • Understanding IT general controls • Understanding of the IT environment • System functionality operating to design • IT general controls segregation of duties analysis • Cyber security workplan

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. We set out our reported assessment below:

Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Red	Forecasts indicate that the General Reserve will be fully depleted by 31 March 2023 and that budget gaps will continue to grow. Urgent step change is needed to address the scale of the challenge the Council faces. There is scope for improved record keeping for monitoring savings plans and testing sensitivity in sensitivity in medium-term financial plans.	We will follow up progress against the key recommendation(s) made and ensure that our work assesses the current arrangements in place.
Governance	Red	Delays in preparing and publishing draft accounts reduces transparency and breaches the Council's statutory duty.	We will follow up progress against the key recommendation(s) made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	Amber	All necessary steps should be taken to keep Council plans and strategies up to date, including the Local Plan, the Climate Change Action Plan and the Procurement Strategy. For the Local Plan, a timetable is in place, and it should be adhered to.	We will follow up progress against the improvement recommendation(s) made and ensure that our work assesses the current arrangements in place.

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

Risks of significant VFM weaknesses – continued

Our planning work for 2023/24 is not yet complete, and we will update you separately once this has concluded.

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor's annual report. We report our value for money work in our Auditor's Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor's Report and included within our audit opinion.

Audit logistics and team

Planning and risk assessment

Audit Committee
July 2024
Interim Progress Report

Year end audit
from July 2024

Audit Committee
TBC
Audit Findings Report/Draft Auditor's Annual Report
Audit Opinion

Audit Committee
TBC
Auditor's Annual Report

Matt Dean, Key Audit Partner

Matt will be the main point of contact for the Chief Executive, Section 151 Officer and Members. Matt will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit Committee. Matt will ensure our audit is tailored specifically to you and is delivered efficiently. Matt will review all reports and the team's work.

Ibukun (Ibby) Oluwasegun, Audit Manager

Ibby will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Ibby will attend Audit Committee, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all.

Antoinette Mtembu, Audit In-charge

Antoinette will lead the onsite team and will be the day-to-day contact for the audit. Antoinette will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Antoinette will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on slide 4 & 5)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Medway council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £392,092.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

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	Proposed fee 2023/24
Medway Council Audit (Scale fee)	£392,092
ISA 315 (This was omitted by PSAA from the 2023-24 Scale Fees and hence standard uplifts have been agreed by PSAA for each type of client to cover these costs)	£12,550
Potential impact of backstop	TBC
Audit of the group accounts	TBC
Total audit fees (excluding VAT)	TBC

Previous year

If the opinion on the 2021-22 and 2022-23 audits are disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our audit procedures, we will make enquiries to management on IFRS 16. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)]

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 we as a firm, and each covered person, confirm that we 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 September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related services for all outstanding audit years (financial years 2021-22 to 2023-24)			
Certification of Teacher's Pension (financial years 2021-22 to 2023-24)	TBC	- Self-Interest (because this is a recurring fee) - Self review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is likely to be lower in comparison to the total fee for the audit and in particular relative 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. To mitigate against the self-review threat, the work is carried out by a separate team to the financial statement audit team.
Certification of Housing benefits subsidy (financial years 2021-22 to 2023-24)	TBC	- Self-Interest (because this is a recurring fee) - Self review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is likely to be lower in comparison to the total fee for the audit and in particular relative 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. To mitigate against the self-review threat, the work is carried out by a separate team to the financial statement audit team.
Certification of Pooling of Housing Capital Receipts (financial years 2022-23 to 2023-24)	TBC	- Self-Interest (because this is a recurring fee) - Self review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is likely to be lower in comparison to the total fee for the audit and in particular relative 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. To mitigate against the self-review threat, the work is carried out by a separate team to the financial statement audit team.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:
Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.
The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information.