

14th November 2024

To Audit Committee Chair
Medway Council
Gun Wharf Dock Road
Chatham
Kent
ME4 4TR

-Grant Thornton UK LLP
2nd Floor
St John's House
Haslett Avenue West
Crawley
RH10 1HSL
grantthornton.co.uk

Dear Councillor Browne

Medway Council: Conclusion of the audit for 2021/22 and 2022/23 – letter to those charged with governance on the application of the local authority backstop

As you will be aware, on 5 September 2024 the government published draft Accounts and Audit (Amendment) Regulations 2024. These Regulations set a publication date for financial statements up to and including 2022/23 by 13 December 2024. The new National Audit Office Code which took effect from 14th November 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Chief Operating Officer and the Audit Committee and for reasons which I set out in more detail below, it will not be possible for us to complete our audits for 2021/22 and 2022/23 by the statutory backstop date. We therefore intend to issue a disclaimer of our audit opinion. We attach a draft copy of these disclaimer opinions for the attention of the Audit Committee.

We are required under Auditing Standards to report certain matters to the Audit Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

Outcome of our audits for 2021/22 and 2022/23 – Disclaimer of the opinion on the financial statements

Unfortunately for reasons set out below, it will not be possible to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore intend to issue a disclaimer of the audit opinion.

As previously reported, these audits were delayed due to the 2020/21 audit not being concluded until October 2023 because of historic capacity issues within the finance team, which combined with national technical issues, compounded the delay. The Accounts and Audit Regulations 2015 required the Council to make its financial statements for the year ended 31 March 2022 available for public inspection by the first working day in August 2022. The Council made these financial statements available in November 2023.

Chartered Accountants

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For the year ended 31 March 2023 the Council was required to make its financial statements available for public inspection by the first working day in June 2023. The Council made these financial statements available for public inspection in October 2024.

As a result of the above matters, we did not have enough time before 13 December 2024 to obtain sufficient appropriate audit evidence to conclude that the financial statements for 2021/22 and 2022/23 as a whole are free from material misstatement.

Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice

We reported the outcome of our Value for Money work in our Auditor's Annual Reports to the Audit Committee for 2021/22 on 1 August 2023 and for 2022/23 on 29 November 2023.

The key findings for the year ended 31 March 2022 noted a significant weakness in relation to securing economy, efficiency and effectiveness in relation to the October 2022 Ofsted inspection as well as a governance significant weakness in relation to the late production of the 2021/22 financial statements.

The key findings for the year ended 31 March 2023 noted a governance significant weakness in relation to the late production of the 2022/23 financial statements. Significant weaknesses in arrangements for financial sustainability were noted to take urgent action to address the financial pressures and to monitor savings plans separately from the base budget.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above.

Independence

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements covering 2021/22 and 2022/23. These will be tabled as a separate agenda item.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

Darren Wells

For Grant Thornton UK LLP

CC: Chief Operating Officer

Attachments: Draft Disclaimers of Opinion for 2021/22 and 2022/23

Appendix

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. Our respective responsibilities are also set out 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 both of 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 its responsibilities. It is the responsibility of the authority 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 authority is fulfilling these responsibilities.

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

Audit Plan

Due to delays in the completion of prior year audits and in the production of the 2021/22 and 2022/23 financial statements, we were unable to issue an audit plan in respect of this audit year.

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.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for 2021/22 and 2022/23.

Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

Going Concern

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

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it

may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Matters in relation to the Group audit

In respect of the group engagement, we are required to report on:

- The scope of work on components
- The involvement of group auditors in significant component audits,
- Any concerns over quality of component auditors' work
- Limitations of scope on the group audit, and
- Fraud or suspected fraud

As we have not undertaken any detailed work in respect of 2021/22 or 2022/23 financial statements audit, there are no issues we need to draw to your attention. We have no matters to report in this respect.

Audit fees and non-audit fees

PSAA set a scale fee for 2021/22 of £113,287 and for 2022/23 of £124,062. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for each audit year.

We have also undertaken the following non audit work in each year:

Audit Service	Proposed Fee	Final Fee
2021/22		
Housing Benefits Return	£52,000	TBC*
Housing Pooling Receipts Return	£7,500	£7,500
Teachers' Pensions Return	£8,000	TBC*
2022/23		
Housing Benefits Return	£56,000	TBC*
Housing Pooling Receipts Return	£10,000	TBC*
Teachers' Pensions Return	£10,000	TBC*
* Where the final fee is set at TBC, this indicates that the audit work is still in progress.		

The fees reconcile to the financial statements.

	2021/22	2022/23
Fees per the financial statements	£0	£0
Reconciling item – Unaccrued Housing benefits fee	£52,000	£56,000
Reconciling item – Unaccrued Housing Pooling receipts fee	£7,500	£10,000
Reconciling item – Unaccrued Teachers' Pensions fee	£8,000	£10,000
Total fees per above	£67,500	£76,000
<p>The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit of £237,349 (2021/22 & 2022/23 combined) and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.</p> <p>We have considered whether our grant claim work, the fee for which may be higher than the audit fee for the backstopped years, represents a threat to independence. We are satisfied that it is not a threat, on the basis that grant claim work is carried out under instructions set by government, is undertaken on a routine basis each year, and has been assessed by the NAO in AGN 01 as not counting against the non audit cap.</p>		

