



17th January 2025

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

-Grant Thornton UK LLP
 30 Finsbury Square
 London
 EC2A 1AG

T +44 (0)20 7383 5100
 grantthornton.co.uk

Dear Councillor Browne

Medway Council: Conclusion of the audit for 2023/24 – letter to those charged with governance on the application of the local authority backstop 2023/24

As you will be aware, on 9 September 2024, the Accounts and Audit (Amendment) Regulations 2024 was laid before Parliament, and this came into force on 30 September 2024. These Regulations set a publication date for financial statements up to and including 2022/23 by 13 December 2024, and for audit year 2023/24 by 28 February 2025. The new National Audit Office Code which was approved on 14 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, the reasons which I set out in more detail below, it will not be possible for us to complete our audit for 2023/24 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer 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 A.

Outcome of our audit for 2023/24 – Disclaimer of the opinion on the financial statements

Unfortunately for reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 28 February 2025. 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 plan to issue a disclaimer of the audit opinion. We have attached the draft wording of our Audit Report for your information (Appendix C).

We started the fieldwork stage of the audit in mid-July 2024. We previously communicated to management that our aim was to finalise the audit by the end of the calendar year, 31 December 2024. However, we were faced with a number of challenges that impacted on the achievement of this. These included the need to consider testing of the opening balances due to the disclaimed opinions issued in respect of 2021-22 and 2022-23, the impact of the prior year disclaimer on sample sizes, challenges reconciling listings to enable sampling to take place, the lack of group accounts, and the length of time it took to conclude on an area of testing due to back-and-forth between the finance team and audit team on appropriate evidence.

On the 3 September 2024, we communicated to management that there was insufficient time to undertake a compliant audit in the time available. Based on experience, we judged it to be highly improbable that would

Chartered Accountants

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complete our work on the valuation of land and buildings, investment properties and council dwellings by 28 February 2025 as this area is inherently time consuming. We therefore agreed with management that we would prioritise our work in areas that we were most likely to be able to complete in the time available. As planned, our testing focussed on closing balances, income and expenditure transactions and journals testing, given it is a key strand of our assurance over the inherent risk of management override of control. However, as documented within Appendix B, we were unable to conclude our work on journals and other areas due to the challenges mentioned earlier.

Outcome of this year's audit - Value for Money work

We undertook our Value for Money work in 2024 and have reported the outcome in our interim Annual Audit Report dated 28 January 2025. This is tabled as a separate agenda item for committee members. The key findings include:

- Governance: a significant weakness noted in the Council's governance arrangements
- Financial sustainability: a significant weakness noted in the arrangements for achieving a balanced budget and managing the reserves balance
- Improving economy, efficiency and effectiveness: no significant weakness noted.

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

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

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we confirm that there are no significant facts or matters that impact on our independence matters as auditors that we are required or wish to draw your attention and consider that an objective reasonable and informed third party would take the same view.

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 the financial year 2023/24. This 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

Matt Dean

For Grant Thornton UK LLP

cc Chief Operating Officer

Attachments:

Appendix A - Communication of audit matters to those charged with governance

Appendix B - Status of the audit testing,

Appendix C - Draft Disclaimer of Opinion, and

Appendix D - Letter of Representation

Appendix A - Communication of audit matters to those charged with governance

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

We issued an Audit Plan on 5 July 2024. In our plan we identified the following issues as significant audit risks:

- 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 have not identified any other significant risks since the date we issued our audit plan.

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.

For 2023/24, we set a materiality level of £8.4million for the group and £8.2million for the Council.

Summary of work carried out

We have summarised the status of audit testing on key areas of the financial statement (see Appendix B). As we have not concluded on key areas of the audit, we do not provide assurance on any area or balance of the accounts [as we have not been able to triangulate our findings with other audit work, we would normally have undertaken]. We will seek to use the work performed as part of our efforts to rebuild assurance in future years but as our audit for 2023/24 financial year is incomplete.

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 no work has been carried out on the group accounts, we are unable to provide any conclusions in respect of these areas.

Audit fees

PSAA set a scale fee for the financial year. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for the audit year.

Financial year	PSAA Initial scale fee	Auditor proposed fee based on time spent on backstopped audit	Final fee
2021/22	£113,287	£37,000	TBC
2022/23	£124,062	£37,000	TBC
2023/24	£392,092	TBC	TBC

The audit fee for 2023/24 reconciles with the financial statements.

Non-audit fees

We have also undertaken the following non audit work in respect of (audit year) as well as the threats to our independence and safeguards that have been applied to mitigate these.

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*
2023/24		
Housing Benefits Return	TBC*	TBC*
Housing Pooling Receipts Return	£10,000	TBC*
Teachers' Pensions Return	£12,500	TBC*

[*TBC represents areas where work is still on-going or yet to begin.]

For all the non-audit services provided, the table below shows the threats to our independence and safeguards that have been applied to mitigate these threats.

Threats identified for the non- audit services provided	Safeguards
Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for all financial years 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.
Self-review (because GT provides audit services)	
Management threat	
	To mitigate against the self-review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

The non-audit fees do not reconcile to the financial statements.

	2023/24
Fees per the financial statements	£0
Reconciling item – Unaccrued 23/24 Housing benefits fee	TBC
Reconciling item – Unaccrued 23/24 Housing Pooling receipts fee	£10,000
Reconciling item – Unaccrued 23/24 Teachers' Pensions fee	£12,500

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee.

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 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.