Grant Thornton

Indicative External Audit Plan for Medway Council

Year ending 31 March 2025

Audit Committee date: 20 March 2025

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English Devolution White Paper

On 16 December 2024 , the Secretary of State for Housing, Communities and Local Government, Angela Rayner, Presented to Parliament the English Devolution White Paper.

The White Paper sets out the direction of travel for the devolution of power across England. Devolution is seen by the government as being fundamental in achieving the change the public expect and deserve. The government's aim is for devolution to promote growth, a joined-up delivery of public services, and politics being done with communities, not to them. England is one of the most centralised countries in the developed world. The goal is universal coverage of strategic authorities in England.

Strategic authorities will be a combination of pre-existing Combined Authorities and Mayoral Strategic Authorities (MSAs). They will be funded through an integrated settlement which can be used by the Authority across housing, regeneration, local growth, local transport, retrofit, skills and employment support. This removes the complexity of numerous grants, conditions and reporting requirements, simplifying it into a single mutually agreed outcomes framework monitored over a supply review period. In combination with this Mayors will be given more control over the devolution of transport, skills & employment support, housing and planning, environment and climate change, supporting business and research, reforming and joining up public services.

The government plans to facilitate a programme of local government reorganisation for 2-tier areas across England. It will also facilitate the reorganisation of unitary councils where there is evidence of failure, or where their size and/or boundaries are a hinderance to local decision making. This will be done in a phased approach and for most will mean creating councils serving a population of 500 000 or more. Along with devolution government wants to reset its relationship with local government, end micro-management and enable local governments through multi-year settlements.

The next steps are:

- A widening and deepening of devolution, expanding on the 2 new Mayors and 6 non-mayoral devolutions already noted in the white paper, with a priority programme for those with plans ready for action;
- An invitation from all remaining 2-tier areas and unitary councils where appropriate, to submit proposals for local reorganisation;
- And re-committing to the English Devolution Bill by putting the devolution framework into statute and moving to a systematic approach that ensures local leaders have the powers they need.

Update

Jim McMahon, Minister for Local Government and English Devolution, wrote to two-tier authorities in February 2025 to set out a timetable for reorganisation proposals to be submitted. We are expecting an interim plan by 21 March 2025 and a full proposal by 28 November 2025.

Challenges of Local Government Reorganisation (LGR)

In December 2024, the English Devolution White Paper was published, which set out the government's vision for simpler local government structures to hopefully lead to better outcomes for residents, save significant public funds which can be reinvested in public services, and improve local accountability.

On 16 December 2024, the Minister for State for Local Government and English Devolution Jim McMahon, wrote to all Councils in remaining two-tier areas and neighbouring small unitaries to set out the plans for a joint programme of devolution and local government reorganisation.

On 5 February 2025, a list of places was announced who had opted in to join the government's Devolution Priority Programme, which would aim to have mayoral elections in May 2026. On the same date, the Minister asked all Councils in two-tier areas to develop unitary proposals, which will bring together upper and lower tier local government services in new unitary councils. For those selected in the 'first wave', they have until 21 March 2025 to develop interim plans, with final plans required by 9 May 2025.

Whilst clearly the proposals are at a strategic level, there are potential impacts on decision making at a local level in the period up to the formal reorganisation taking effect. Of particular concern for some existing bodies is the fact that where reserves have been built up over previous years, either via strong management or for the implementation of a particular redevelopment scheme, they may well end up being repurposed to cover an overspend incurred by a successor body. Thus, there is potentially an incentive for bodies to run down reserves prior to the formal merger, to ensure these balances are utilised for the purposes intended when originally set aside. The same may apply for balances such as the Community Infrastructure Levy, which again is at risk of being utilised for different purposes than was planned in any successor body.

Auditors will be keeping a close eye, as part of their Value for Money work, for any schemes or projects which look they are evidence of reserves being run down in advance of LGR. Whilst Authorities ultimately will still have powers to make some spending decisions in advance of LGR, it is important to make sure that proper governance arrangements remain in place, and that due consideration is given to any schemes which are likely to run beyond May 2026, which is when the first batch of elected mayors are expected to be in place.

In order to help ensure appropriate decisions are made during this period, some questions for Committees to consider include:

- Where earmarked reserves are being utilised, are Committees clear these reserves are being used for the intended plans?
- Where projects are going to run beyond the timeframe of LGR, are Committees comfortable the decision making would stand an appropriate level of challenge and scrutiny?
- Have local residents been consulted in any development plans to ensure they are in line with local needs?
- Do reserve balances remain at a prudent and appropriate level – LGR does not absolve key staff from their statutory responsibilities, particularly around setting a balanced budget and holding a prudent level of reserves.

Where Auditors see evidence of funds being utilised in an unintended manner or to the detriment of relevant stakeholders, they will focus on this as part of their Value for Money work and may potentially consider using their statutory powers where they feel they have sufficient evidence to do so.

Other areas of note during this period should include:

- In the short term LGR is likely to require more capacity from a personnel perspective than less and thus genuine cost savings are unlikely for a few years
- As mentioned earlier, effective governance and stewardship will remain key throughout – thus it is important the likes of Internal Audit, Counter Fraud and the risk management processes remain strong and alert during this period
- Financial statements remain important and should be produced on time during this period and the relevant backstop dates should continue to be met.

Local Audit Reform

External factors

Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local authority leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government's strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector. For our part, we are proud to have signed 84% of our 2022/23 local government audit opinions without having to apply the local authority backstop. This compares with an average of less than 30% sign off for other firms in the market. We will be keen to work with the MHCLG, with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

Key developments impacting our audit approach

National Position

Local governments face many challenges, the pandemic along with the cost of living crisis has left local governments with economic, social, and health challenges to address:

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Housing crisis: The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it's difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

Funding : Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Social care costs, maintaining aging infrastructure, SEND and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services, infrastructure projects and the ongoing stream of section 114 notices will not come as a surprise this year.

Digital Transformation : The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, SEND and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

Key developments impacting our audit approach

Local Context	Our Response
Medway Council's revenue monitoring report for the financial year 2024/25 has highlighted several key pressures and issues impacting the council's financial position. One of the most significant pressures comes from the rising demand and cost of social care, both for adults and children. Nearly three-quarters of the Council's total budget is allocated to these services. Medway Council has experienced a sharp decline in its revenue support grant from the government, despite some additional funding in the 2024/25 settlement (e.g., £14.742 million exceptional financial support), this has not kept pace with inflation, service demands, or exacerbating financial pressures. A review by the Chartered Institute of Public Finance and Accountancy (CIPFA) concluded that Medway is in a "grave situation" regarding financial sustainability. While it found no governance or financial failures, it noted that the council's "room for manoeuvre is severely limited," highlighting systemic issues beyond local control, such as national funding constraints. These pressures have forced the council to make difficult decisions, such as increasing council tax by 4.994% for 2024/25, introducing parking charges, and ending free swimming programs for over-60s and under-16s. Despite these measures, the council's financial sustainability remains uncertain, reliant on government intervention and careful budget management to maintain essential services. Looking ahead, Medway Council approved its annual budget for 2025/26 financial year on the 27 February 2025 during a full Council meeting. This budget includes significant investment in essential services. To balance the budget, the council secured exceptional financial support from the government, allowing it to borrow approximately £18.5 million in 2025/26, reflecting on the ongoing financial pressures faced by the Council.	Detailed review of how the authority is ensuring financial sustainability as part of their Value for Money arrangements.
New accounting standards and reporting developments	
• local authorities will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on page 9. • The FRC issued revisions to ISA (UK) 600 'Audits of group financial statements (including the work of component auditors)'. The revised standard includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019). The new and revised requirements strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.	• Detailed review of the authority's implementation of IFRS 16. More information can be found on page 9 of this report. • Enhanced procedures in respect of audits of group financial statements such as conducting a detailed risk assessment on the components of the group, instructing the component auditor to carry out specified audit procedures (where applicable), review the subsidiaries working paper directly and perform additional testing (where applicable). More information on the group audit can be found on page 23 of this report.

Key developments impacting our audit approach (continued)

Our commitments

- As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, are set out further in this Audit Plan.
- To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm if this is acceptable to you, and that your staff will make themselves available to our audit team.
- We would like to offer a formal 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.
- Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

IFRS 16 Leases

Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. 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.

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.

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

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

There are however the following exceptions:

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

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

We believe that most LG Bodies 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
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we have made inquiries of management regarding their methodology for assessing the impact of IFRS 16 on the 2024-25 financial statements. At the time of writing, management stated that the process is currently on-going. Therefore, we have arranged to re-visit this and perform any early work on IFRS 16 in April 2025.

The Backstop

Local Government National Context – The Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- for years ended 31 March 2023 and earlier by 13 December 2024; and
- for years ended 31 March 2024 by 28 February 2025; and
- for years ended 31 March 2025 by 27 February 2026.

The Statutory Instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Local Government National Context – Local Audit Recovery

In the audit report for the year ended 31 March 2024, a disclaimer of opinion was issued due to the backstop. As are result, we anticipate that for 2024/25:

- we will have no assurance over the opening balances for 2024/25
- we will have no assurance over the closing reserves balance also due to the uncertainty over their opening amount.

We are in discussion with the NAO and the Financial Reporting Council (FRC) as how we regain assurance. We will work with the Council to rebuild assurance over time.

Our Work

Our initial focus for the audit will be on in-year transactions including income and expenditure, journals, capital accounting, payroll and remuneration and disclosures; and closing balances for 2024/25. Our objective is to begin a pathway to recovery, by providing assurance over the in year 2024/25 transactions and movements, where possible, and those closing balances which can be purely determined in isolation without regard to the opening balance, such as payables and receivables. As guidance is received from the NAO and the FRC, we will formulate a more detailed strategy as to how assurance can be gained on prior years.

Looking ahead

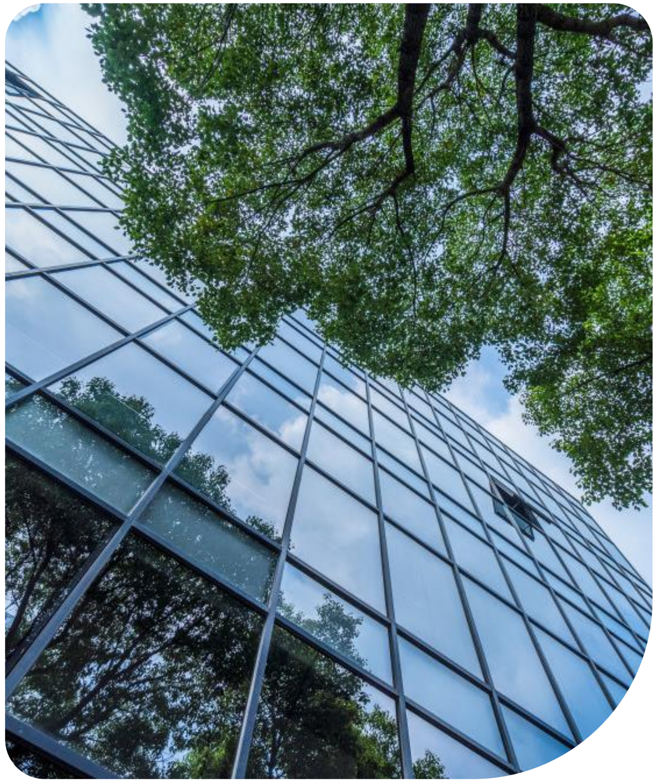
Whilst we are focusing on the 2024-25 Accounts within this Plan, it is important to recognise that under the wider recovery plans, the backstop dates start to come forward over the next two audit cycles.

As mentioned earlier, the backstop date for the 2024-25 Accounts is the end of February 2026, and the backstop date for 2025-26 is the end of January 2027. It is likely that the slightly shortened timeframe for the 2025-26 Accounts will cause challenges for both preparers and auditors of Accounts, and thus we are encouraging all parties to have one eye on the plans for the 2025-26 Accounts as these timeframes have not been seen since the pandemic.

We will be working closely with you to ensure things progress as smoothly as possible, recognising the competing pressures on all of our time over the coming weeks and months.

02 Introduction and Headlines

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 the 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 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.

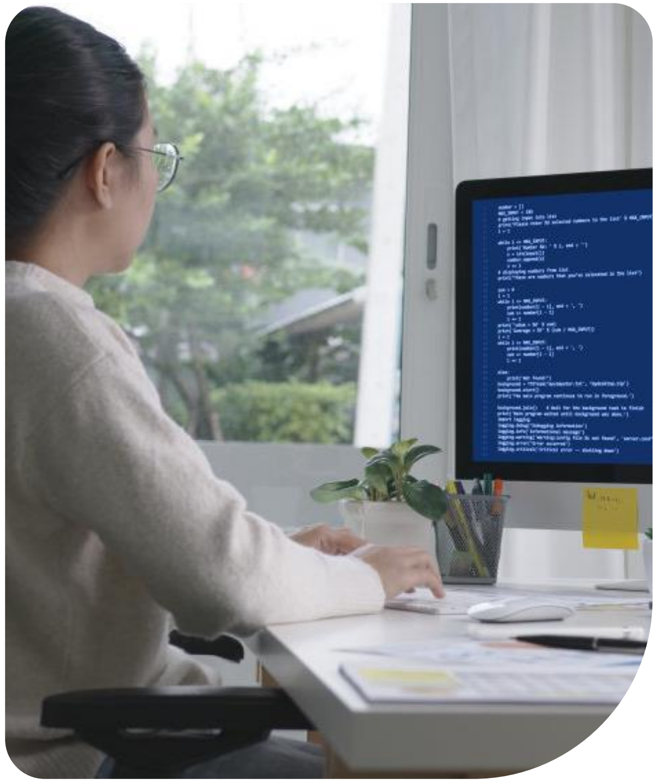
Scope of our Audit

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's 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 for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

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 (continued)



Significant risks

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

- The risk of management override of controls.
- The risk of fraud in revenue recognition (rebutted for Council accounts only).
- The risk of fraud in operating expenditure and associated creditor balances.
- 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.

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;
- joint ventures Medway Norse Limited and Medway Norse Transport.

Materiality

We have determined planning materiality to be £8.3m (PY: £8.2m) for the Council, which equates to 1.2% of your prior year gross operating costs for the year. For the group, we have determined planning materiality as £8.5million (PY: £8.4million), which equates to 1.3% of the Group's prior year gross operating costs for the year.

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 £415k for the Council (PY: £410k) and £425k for the group (PY: £420k).

Value for Money arrangements

Regarding your arrangements to secure value for money, in 2023/24, we identified a significant weakness in the Council's Governance arrangements and Financial sustainability arrangements. For 2024/25, 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 next visit will take place in April 2025 to finalise planning and/or perform any interim work. We will issue a final audit plan at the next audit committee date. Our final visit will take place in July to September 2025. Our key deliverables are this Indicative Audit Plan, the final Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

Our proposed fee for the audit is £443,336 for the audit of the Council and Group financial statements, 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 2024) 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

03 Identified risks

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.

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Management override of controls	Group and Council Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	• 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.
The risk of fraud in revenue recognition (rebutted for Council accounts only).	Group Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	We have carried out a risk assessment of all revenue streams for the Council and Group. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams except for the revenue streams of the subsidiaries. We have assessed these revenue streams as being at greater risk of being manipulated and as such we have identified a significant risk of fraud in these revenue streams. Where we have rebutted the risk of fraud in revenue recognition for revenue streams (i.e. the Council's revenue streams) this is due to the low fraud risk in the nature of the underlying transactions.	Where the risk has been rebutted we do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate. For the subsidiaries revenue streams, we will: • Evaluate the Group's accounting policy for recognition of income for appropriateness and compliance with the Code; • Update our understanding of the system for accounting for the income and evaluate the design of associated processes and controls; • Agree on a sample basis relevant income and year end receivable/income accruals to invoices and cash payment or other supporting evidence; • We will carry out testing on sample basis of invoices issued in the period prior to and following 31 March 2025 to determine whether income is recognised in the correct accounting period, in accordance with the amounts billed to the corresponding parties.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
The risk of fraud in operating expenditure and associated creditor balances.	Group and Council Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.	We have carried out a risk assessment of all expenditure streams for the Council and Group. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams. We have assessed that all expenditure streams, except for those listed below, as being at greater risk of being manipulated and as such we have identified a significant risk of fraud in these expenditure streams. We have rebutted the risk in the following expenditure streams: • payroll related expenditure; • collection fund, housing benefits and housing revenue account revenue expenditure; • depreciation, amortisation and impairment and; • interest payments All other expenditure streams are deemed significant risks. Where we have not identified a significant risk of fraud in expenditure recognition for expenditure streams, this is due to the low fraud risk in the nature of the underlying transactions.	Where we do not consider this to be a significant risk for the Council and Group, standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate. For significant risk expenditure streams, we will: • Evaluate the Council's accounting policy for recognition of expenditure for appropriateness and compliance with the Code; • Update our understanding of the system for accounting for the expenditure and evaluate the design of associated processes and controls; • Agree on a sample basis relevant expenditure and year end payables and accruals to invoices or other supporting evidence; • We will carry out testing on sample basis of invoices received and payments made in the period following 31 March 2025 to determine whether expenditure is recognised in the correct accounting period, in accordance with the amounts billed to the corresponding parties. • Review the conditions associated with the exceptional financial support and test a sample of relevant expenditure to ensure that the conditions have been complied with.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Valuation of land and buildings	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: • Engage auditor's expert in the planned audit procedures to be performed on the Councils asset valuation. • 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.

"In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK)." (ISA (UK) 315).

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550).

Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced 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.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Valuation of council dwellings	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: • Engage auditor's expert in the planned audit procedures to be performed on the Councils asset valuation. • 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 £100,000 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: • Engage auditor's expert in the planned audit procedures to be performed on the Councils investment property valuation. • 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)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
Valuation of net pension fund liability	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.

Other risks identified

Other risks are, in the auditor's judgement, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for another risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the business.

Risk	Description	Planned audit procedures
IFRS 16 implementation	IFRS 16 was 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.	We will: • Review the Council's implementation plan and assess the process followed to transition to IFRS 16, ensuring compliance with the standard's requirements. • Assess the design effectiveness of internal controls related to the identification, measurement, and disclosure of leases under IFRS 16. • Verify the accuracy and completeness of lease data by performing substantive testing of lease agreements, lease payments, and related documentation. • Review the application of judgement and estimation carried out by management • Review the Council's disclosures related to leases under IFRS 16 to ensure completeness, accuracy, and compliance with the standard's disclosure requirements.
Group accounts	The Council has faced ongoing delays in producing its group accounts over a number of years. This has meant that the group accounts have not been appropriately assessed for errors and deficiencies in the financial reporting.	We will: • Agree consolidation schedules to supporting records • Test material consolidating adjustments to supporting records. • Review group accounting disclosures are in accordance with the Code.
Reinforced autoclaved aerated concrete (RAAC)	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 £22 million, 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.

"The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated." (ISA (UK) 315)

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 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.

04 Group Audit

Group audit scope and risk assessment

In accordance with ISA (UK) 600 Revised, 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.

Component	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risks identified	Auditor
Medway Council	Yes	Audit of the entire financial information of the component	Group auditor	Refer to section 3 of this report	Grant Thornton UK
Kyndi Ltd	Yes	Specific audit procedures	Component auditor*	- Management override of controls - The risk of fraud in revenue recognition - The risk of fraud in operating expenditure and associated creditor balances.	KLSA LLP
Medway Development Company Ltd	Yes	Specific audit procedures	Group auditor & Component auditor*	- Management override of controls - The risk of fraud in revenue recognition - The risk of fraud in operating expenditure and associated creditor balances. - Valuation of Investment Properties	Kreston Reeves

Involvement in the work of component auditors*

In order to use the work of the component auditor, we will require the ability to access relevant component auditor documentation to complete our group audit. The nature, time and extent of our involvement in the work of the two subsidiaries audit will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditors audit documentation and meeting with appropriate members of management.

We will also require that the component auditor is independent under the independence requirements of the FRC and this may be stricter than the requirements for completing their local reports.

If we are unable to secure access to the component auditor's working papers we will report the impact of such impediments on the audit of the group financial statements.

Where a member of the Grant Thornton International network is involved, we will communicate to them your policy on non-audit services. You will ensure that each component entity within your group is aware of your policy.

Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.

05 Our approach to materiality

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
01	**Determination** We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council and Group, including consideration of factors such as stakeholder expectations, industry developments, financial stability and reporting requirements for the financial statements	• 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
02	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements	• An item may be considered to be material by nature when it relates to: – instances where greater precision is required
03	**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
04	**Matters 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 Council and Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £415,000 for the Council (PY: £410,000) and £425,000 for the group (PY: £420,000). • 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.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

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.

	Amount (£)	Qualitative factors considered
Materiality for the Group financial statements	£8,500,000	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
Materiality for the Council's financial statements	£8,300,000	

06 IT audit strategy

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	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

07 Value for Money Arrangements

Value for Money Arrangements

Approach to Value for Money work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. 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:

Financial sustainability

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

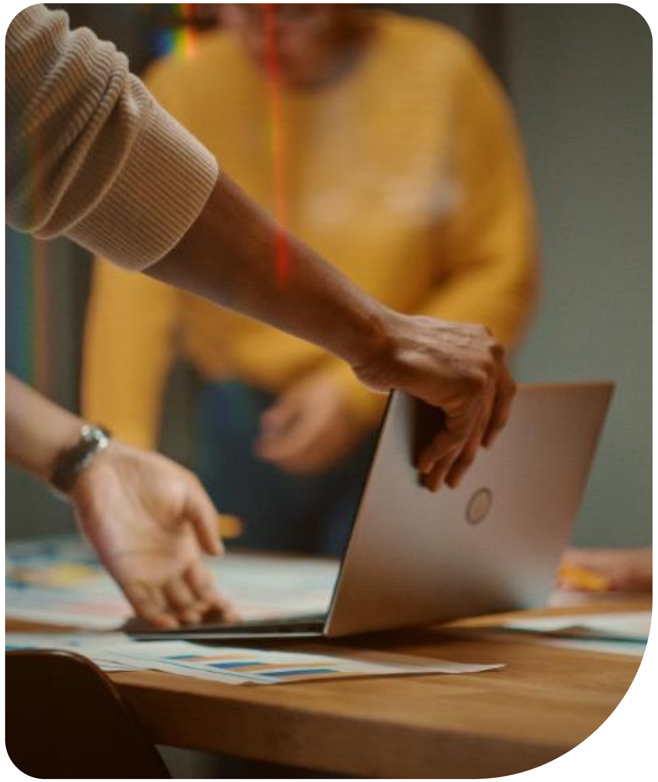
Governance

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

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.

Risks of significant VFM weaknesses



As part of our initial planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. Our planning work for 2024-25 is not yet complete, and we will update you separately once this has concluded.

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

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 weakness in VFM arrangements (continued)

Risk assessment of the Council's VFM arrangements

The Code of Audit Practice 2024 (the 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. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024/25. We will continue to evaluate risks of significant weakness and if further risks are identified , we will report these to those charged with governance. We set out below:

Criteria	2023/24 Auditor judgement on arrangements		2024/25 risk assessment
Financial sustainability	R	We identified a significant weakness in arrangements for achieving a balanced budget and managing the reserves balance. We also note that the Council should clarify its approach to minimum revenue provision as a matter of urgency. We identify two improvement recommendations around savings data and scenario planning.	To be determined
Governance	R	We identified a significant weakness in arrangements for preparing draft accounts. Although the Council has largely caught up with the backstop timetable, it will need to comply with closer deadlines in future years. We identify two improvement recommendations around counter fraud and resourcing the budget setting arrangements.	To be determined
Improving economy, efficiency and effectiveness	A	We did not identify a significant weakness in arrangements for 2023/24. We identified one area for improvement, around Local Government and Social Care Ombudsman findings.	To be determined

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. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. 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.

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.

08 Logistics

Logistics

The audit timeline

Key Dates

Year end: 31 MAR 2025

Audit committee: To be determined

Sign off: To be determined

Audit phases:

Planning – 3 weeks
w/c 17 FEB 2025

Key elements

- Planning meeting with management to set audit scope
- Planning requirements checklist to management
- Agree timetable and deliverables with management and Audit Committee
- Issue the Audit Plan to management and Audit Committee
- Planning meeting with Audit Committee to discuss the Audit Plan (20 March 2025)

Interim – 1 week
APR 2025

Key elements

- Review of management responses to key planning questionnaires including any follow-up meetings
- Finalise design effectiveness of systems and processes
- Review of key judgements and estimates

Final – 11 weeks
w/c 30 JUN 2025

Key elements

- Finalise audit plan
- Audit teams onsite to complete fieldwork and detailed testing
- Weekly update meetings with management

Completion – 1 week
Estimated w/c 15 SEP 2025

Key elements

- Draft Audit Findings Report issued to management
- Audit Findings meeting with management
- 'Hot review' of the financial statements
- Draft Audit Findings Report issued to Audit Committee
- Audit Findings Report presentation to Audit Committee
- Auditor's Annual Report presentation to Audit Committee

Our team and communications

Grant Thornton core team:

Matt Dean
Key Audit Partner

- Key contact for senior management and Audit Committee
- Overall quality assurance

Ibukun Ossai
Audit Senior Manager

- Resource management
- Performance management and reporting

Antoinette Mtembu
Audit In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit planning and fieldwork lead

Pool of specialists and other technical specialists (e.g. IT audit, Financial reporting, Audit quality & Audit digital specialists)

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	• Annual client service review	• The Audit Plan • The Audit Findings Report • Auditor's Annual Report	• Audit planning meetings • Communication of issues log	• Technical updates
Informal communications	• Open channel for discussion		• Communication of audit issues as they arise	• Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

09 Fees and related matters

Our fee estimate

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2024) 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.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit for Medway Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2024/25 audit is £443,336.

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 Fee Variations Overview – PSAA

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 Fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
Medway Council Audit (Scale fee)	£392,092	£443,336
ISA 315	£12,550	*N/A - (included in scale fee)*
Total (Exc. VAT)	TBC*	£443,336

**The final audit fee for 2023/24 will be determined by PSAA*

Our fee estimate:

We have set out below our specific assumptions made in arriving at our estimated audit 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.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the following areas:
  - Valuation of the Councils Property, plant and equipment
  - Valuation of Pension fund net liability.

Previous year

As the audit opinion on the 2023/24 audit is disclaimed due to the imposition of a backstop date, we may 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.

10 Independence considerations

Independence considerations

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, there are no matters that we are required to report.

As part of our assessment of our independence at planning we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council and/or Group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council and/or Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council and/or Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council and/or Group .
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council and/or Group's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning 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. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

The following tables below sets out the non-audit services charged from the beginning of the financial year to 20 March 2025, as well as the threats to our independence and safeguards have been applied to mitigate these threats.The below non-audit services are consistent with the group and Council's policy on the allotment of non-audit work to your auditor. None of the below services were provided on a contingent fee basis.

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Medway Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of Teacher's Pension (financial years 2021-22 to 2023-24)	2021-22: £7,500 2022-23: £10,000 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)	2021-22: £50,000 2022-23: TBC 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)	2022-23: £10,000 2023-24: £10,000	- 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.

This covers all the group and council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to services provided by us and our network to bear on our integrity, objectivity or independence.

11 Communication of audit matters with those charged with governance

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	●	
Planned use of internal audit	●	
Confirmation of independence and objectivity	●	●
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 Council and Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
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 involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●

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.

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.

12 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

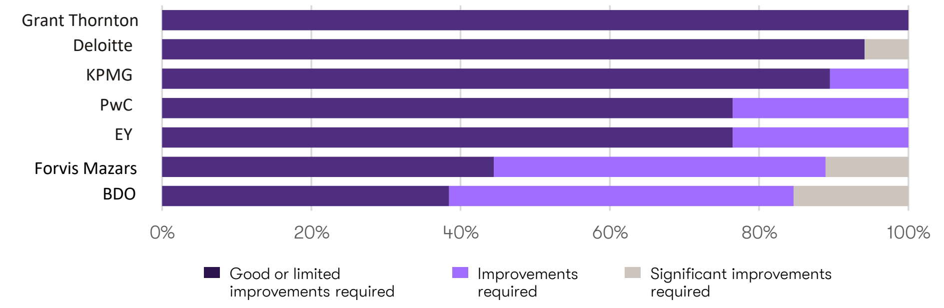
Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

Oversight and control

Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit

13 Appendices

Escalation Policy

The Backstop

The Department for Levelling Up, Housing and Communities have introduced an audit backstop date on a rolling basis to encourage timelier completion of local government audits.

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 statutory deadline and respond to audit information requests and queries in a timely manner.

Escalation Process

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.

Aim

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.

IFRS reporters New or revised accounting standards that are in effect

First time adoption of IFRS 16 Lease liability in a sale and leaseback	• IFRS 16 was implemented by LG bodies from 1 April 2024, with early adoption possible from 1 April 2022. The 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. • This year will be the first year IFRS 16 is adopted fully within Local Government.
IAS 1 amendments Non-current liabilities with covenants	• These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IAS 7 and IFRS 7 Supplier finance arrangements	• These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

IFRS reporters Future financial reporting changes

IFRS reporters future financial reporting changes

These changes will apply to local government once adopted by the Code of practice on local authority accounting (the Code).

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are expected to be adopted by the Code from **1 April 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the Code **in future years**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is expected to be adopted by the Code **in future years**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of ‘Operating profit or loss’ subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 is expected to be adopted by the CIPFA Code **in future years**.

The Grant Thornton Digital Audit – Inflo

A suite of tools utilised throughout the audit process

01 Collaborate

Information requests are uploaded by the engagement team and directed to the right member of your team, giving a clear place for files and comments to be uploaded and viewed by all parties.

What you'll see

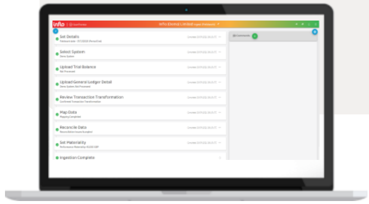
- Individual requests for all information required during the audit
- Details regarding who is responsible, what the deadline is, and a description of what is required
- Graphs and charts to give a clear overview of the status of requests on the engagement

02 Ingest

The general ledger and trial balance are uploaded from the finance system directly into Inflo. This enables samples, analytical procedures, and advance data analytics techniques to be performed on the information directly from your accounting records.

What you'll see

- A step by step guide regarding what information to upload
- Tailored instructions to ensure the steps follow your finance system

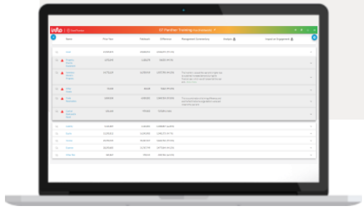


03 Detect

Journals interrogation software which puts every transaction in the general ledger through a series of automated tests. From this, transactions are selected which display several potential unusual or higher risk characteristics.

What you'll see

- Journals samples selected based on the specific characteristics of your business
- A focussed approach to journals testing, seeking to only test and analyse transactions where there is the potential for risk or misstatement



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