



Regaining Assurance Strategy for Medway Council

24 June 2026



Medway Council

Gun Wharf
Dock Road
Chatham
ME4 4TR

24 June 2026

Dear members of the Audit Committee

Regaining Assurance Strategy for Medway Council

This report sets out our plan to rebuild audit assurance at Medway Council (the Authority) following the disclaimer of opinion issued under the statutory backstop for the years ended 31 March 2025, 31 March 2024, 31 March 2023 and 31 March 2022. This plan has been agreed with management and will be communicated to the Ministry of Housing, Communities and Local Government (MHCLG) in July 2026.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

Matt Dean

Director
For Grant Thornton UK LLP

Grant Thornton UK LLP

8 Finsbury Circus
London
EC2M 7EA

T +44 (0)20 7383 5100

www.grantthornton.co.uk

Chartered Accountants

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Key messages

Audit Report

We anticipate our audit report will be disclaimed

Following disclaimed audit reports for the years 2021/22 to 2024/25, we do not expect to be able to support an unmodified opinion on the 2025/26 financial statements. Our audit focus is on 2025/2026 in-year transactions and closing balances, with sign-off targeted for 30 November 2026.

Trajectory

Three-year plan to 2027/28

Our plan to 2027/28 is to rebuild a firm foundation on which the phased build-back of assurance in line with the NAO LARRIG guidance can be based, for the successor body following local government reorganisation. We will prioritise developing a sustainable audit process to gain assurance over in-year transactions and closing balances in each year, including for those areas where audit procedures have not been possible in previous years.

Authority

Delivery depends on the Authority

Developing the foundation for successful build-back requires high-quality draft accounts, comprehensive working papers, timely audit access and continued focus on internal controls. We have discussed and agreed the strategy and trajectory for rebuilding assurance with the Section 151 Officer. The fee will be agreed and reported to the Audit Committee in due course. £125,891 of Section 31 grant funding has been provided to resource the work.

MHCLG capacity assessment

We have assessed the Authority as Category D

An assessment is required by 31 July 2026 covering build-back timing, opinion trajectory and key risks. More detail is available on page 6

Background

What and why

As part of the regaining assurance process we are engaging with MHCLG and PSAA as key stakeholders in monitoring and supporting the agenda across the sector.

MHCLG and PSAA have made a joint request for us to provide information for each body subject to the build-back process. The requested information includes a capacity assessment for each body, to be produced with input from both the audit team and the audited body.

The assessment is intended to give MHCLG and PSAA a more granular understanding of: progress of build-back work to date; planned timing of future work; the year in which a qualified opinion and an unmodified opinion are likely to be achieved; key audit risks; the audited body's capacity to support the build-back; and any significant constraints, including restrictions on the auditor's capacity.

Process

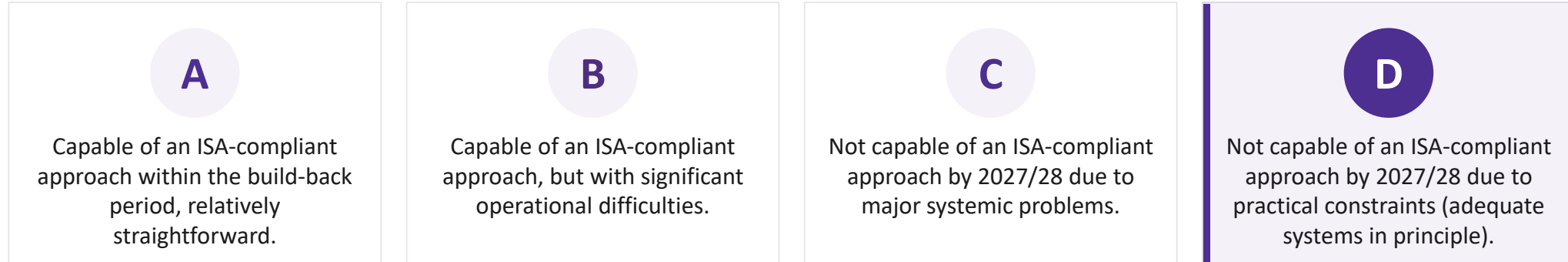
The following pages set out our response.

The information will be used by MHCLG to:

- Better understand the nature and impact of key risks and constraints on the build-back process
- Identify and/or evaluate any significant problems that would benefit from further policy intervention and develop appropriate solutions.
- To develop reliable estimates of the overall cost and timescale of the build-back process and support the review of the build-back grant funding model in autumn 2026.
- To support the government's stewardship of local authorities (including in relation to Local Government Reorganisation) and other bodies by identifying bodies for which an ISA-compliant build-back is unlikely to be possible by the end of 2027/28 and the reasons for this.

Overall assessment and key risks

Under the MHCLG capacity assessment framework, we have provisionally assessed this audit as Category D. The framework categorises audits as follows:



Principal factors supporting our assessment

Technical challenges

The Authority's financial statements contain a number of technically complex areas, including group accounts, property and pension valuations, leases and investment arrangements with its subsidiary companies, along with the classification of reserves. Due to the finance team's capacity, limited audit procedures have been undertaken in these areas in each of the last four years. In addition, the Authority has relied on exceptional financial support from MHCLG to support a balanced budget in 2024/25 and 2025/26, and continues to do so in 2026/27. The Authority will also be subject to local government reorganisation with effect from 1 April 2028. These factors make supporting an ISA-compliant build back of assurance by 2027/28 highly challenging.

Audited body capacity

The Authority's finance team has faced significant capacity challenges for a number of years, which led to us identifying and reporting a significant weakness in VFM governance arrangements in 2023/24 and 2024/25. We recommended that the Authority strengthen its financial reporting and audit readiness arrangements through recruitment at senior and operational levels, and ensuring timely production of high-quality accounts and working papers. Given the challenges experienced in being able to obtain sufficient appropriate audit evidence to support an unmodified audit opinion in each of the last four years, it appears unlikely at present that the Authority would have capacity to undertake the additional work required to support the build back of assurance in the near term.

Expected audit report trajectory

Our planning estimate of when our audit report is expected to transition from disclaimed to qualified, prior to rebuilding assurance is set out below. These are planning estimates only and reflect a best-case scenario where closing balances and in-year transactions, including the group accounts, can be audited in full for 2025/26; they cannot be taken as a commitment or guarantee as to the opinion eventually issued for a given year.

2024/25	2025/26	2026/27	2027/28
Disclaimed	Disclaimed	Disclaimed	Disclaimed / Qualified
Disclaimed opinion issued on 25 February 2026.	A disclaimer of opinion expected. Focus on in-year transactions and closing balances. Sign-off targeted for 30 November 2026, ahead of the 31 January 2027 backstop date.	A disclaimer of opinion expected. Continued focus on in-year transactions and closing balances. Sign-off targeted for 30 November 2027, in alignment with the backstop date.	A disclaimer of opinion expected. Potential for transition to qualified opinion if full audit of in-year transactions and closing balances is achieved in 2025/26 and 2026/27. The timetable for achieving this will be pushed back by one year for each year where this is not possible.

What the opinion types mean

Unmodified (clean): the financial statements give a true and fair view, in all material respects.

Qualified ("except for"): true and fair, except for one or more identified areas where we could not obtain sufficient evidence or where we disagree with the accounting treatment.

Disclaimer of opinion: we could not obtain sufficient evidence to form any opinion – effectively, no audit assurance.

Build-back work programme

The table below summarises when we plan to undertake build-back work for each audit area. It is consistent with the information we will submit to MHCLG within the capacity assessment by 31 July 2026. This reflects a best-case scenario where closing balances and in-year transactions, including the group accounts, can be audited in full for 2025/26.

Audit area	Timing and approach
Statutory reserves	ISA-compliant build-back not achievable
Property assets	2025/26 audit onwards – audit of the rolling valuation programme and in-year movements such as additions, disposals, reclassifications
Pension deficit / surplus	2025/26 audit onwards – reliance on IAS 19 actuarial reports for each year 2026/27 audit – audit of the triennial fund valuation by Kent Pension Fund auditor
Group accounts	2025/26 audit onwards – aim to complete full audit of the group accounts (excluding statutory reserves) including review of work undertaken by component auditors and consolidation adjustments. Audit of the group accounts has not been possible in 2023/24 or 2024/25 due to the availability of supporting working papers, as well as the timing of component auditors' work.
Long-term debtors and creditors	2025/26 audit onwards – audit of the current year valuation and in-year movements
Working balances (cash, receivables, payables)	Largely covered through 2025/26 testing of in-year transactions and closing balances
Other audit work (journals, payroll, grants, disclosures)	Substantively covered each audit year from 2025/26 onwards

We will refresh this timetable and in subsequent Audit Findings Reports if material changes arise.

Regaining assurance examples

The below is a simplified illustration of how our work programme might build assurance over the coming years' audits in a best-case scenario where closing balances and in-year transactions, including the group accounts can be audited in full in 2025/26:

R	No assurance
A	Partial assurance
G	Adequate assurance

2025/26 audit process

	24/25	25/26	
CIES	R	A	No assurance over 24/25 position
PPE	R	A	Assurance gained over valuations at 31/03/26
Pensions	R	A	Assurance gained over 2025 actuarial process
Other assets & liabilities	R	A	Elements may require >1 year to gain assurance
Reserves	R	R	No assurance over reserve balances at 31/03/24

2026/27 audit process

	25/26	26/27	
CIES	A	G	No assurance over the opening 25/26 position
PPE	A	A	Assurance gained over valuations at 31/03/27
Pensions	A	G	Triennial valuation of pension fund completed and reported
Other assets & liabilities	A	G	Assurance over all material balances at 31/03/26
Reserves	R	R	No assurance over reserve balances at 31/03/24

2027/28 audit process

	26/27	27/28	
CIES	G	G	Assurance over transactions in both years
PPE	A	A	Assurance gained over valuations at 31/03/28*
Pensions	G	G	Assurance over balances at both year-ends
Other assets & liabilities	G	G	Assurance over balances at both year-ends
Reserves	R	R	No assurance over reserve balances at 31/03/24

* Rolling valuation programme will not be complete until 2029/30 therefore we do not expect to regain assurance in this area until that year

Reserves balances

The Authority is required to present its reserves balances in a prescribed manner, with distinct balances arising from statutory requirements and ringfences. These reserves are complex, and have no audit assurance for 4 years. In addition to this gap in assurance, there are further risk factors to consider. The Authority has a material group structure and complex lease arrangements in place. We were unable to undertake audit procedures in these key areas in 2023/24 or 2024/25 due to availability of working papers. The 2023/24 and 2024/25 external audit processes identified gaps in audit trails, misstatements in audited areas, and deficiencies in internal controls including accounts preparation arrangements. These factors significantly increase the risk of material misstatement within the Authority's reserve balances. Due to these additional risk factors, it may not be possible to recover assurance over these balances through audit procedures alone.

Next steps and timetable

The key milestones in the regaining assurance programme are set out below.

April 2026

Completion of 2025/26 interim audit work and risk assessment.

30 June 2026

Submission of draft 2025/26 financial statements.

31 July 2026

MHCLG capacity assessment submitted, with Authority's comments where available.

November 2026

Completion of the 2025/26 audit with the aim of gaining assurance over closing balances and in-year transactions.

30 November 2026

Issue the audit report for the year ended 31 March 2026.

31 January 2027

2025/26 backstop date for publication of audited financial statements.

January 2027

Commencement of 2026/27 audit risk assessment.

2027/28 audit

Target year for potential transition to qualified opinion, subject to satisfactory progress.



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