



The Audit Plan for Medway Council

Year ending 31 March 2026

24 June 2026



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The Backstop

The Future of 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 require audited financial statements to be published by a specific date. The upcoming backstop dates are as follows:

- for years ended 31 March 2026 by 31 January 2027
- for years ended 31 March 2027 by 30 November 2027; and
- for years ended 31 March 2028 by 30 November 2028.

The Regulations are supported by the National Audit Office's (NAO) Code of Audit Practice 2024. The backstop dates were introduced to clear the backlog of historic financial statements and support 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 Audit Recovery

In the audit report for the year ended 31 March 2025, a disclaimer of opinion was issued due to the backstop.

As a result, we anticipate that for 2025/26:

- we will have no assurance over the opening balances for 2025/26
- we will have no assurance over the closing reserves balance, due to the uncertainty over their opening amount.

We will work with the Council to rebuild assurance over time.

Our Work

In order to meet future statutory deadlines, for 2025/26 we will be working towards an internal deadline of 30 November 2026, as a dry run for future years. Our initial focus for the audit will be on in-year transactions including income and expenditure, journals, capital accounting, payroll and remuneration disclosures; and closing balances for 2025/26. Our objective is to establish a pathway to recovery, by providing assurance over the in-year 2025/26 transactions and movements, where possible, and those closing balances which can be wholly determined in isolation without regard to the opening balance, such as creditors and debtors. As our work progresses, we will formulate a more detailed strategy as to how assurance can be gained on prior years. We will need the cooperation and input of management throughout the rebuilding process.

We will develop a plan in due course detailing our approach to rebuilding assurance which will be shared with management and subject to internal quality review. This will necessitate additional work, but we will prioritise the audit of 2025/26 in-year transactions and closing balances ahead of any procedures to regain assurances over prior years.

Introduction and headlines



Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Medway Council ('the Council') and the Group 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 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 and Group 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 and Group 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:

- Management override of control;
- Fraud in revenue recognition (Group only; rebutted for the Council);
- Fraud in operating expenditure and associated creditor balances;
- Completeness of operating expenditure and associated creditor balances;
- Valuation of land and buildings;
- Valuation of council dwellings;
- Valuation of investment properties;
- Valuation of the pension fund net asset or liability;
- Accounting for IFRS 16 Leases; and
- Group accounts consolidation.

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

Materiality

We have determined planning materiality to be **£13.9 million** (PY £8.3 million) for the Council, which equates to 2% of your 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 **£695,000** (PY £415,000).

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 (MDC) Ltd; and
- joint ventures Medway Norse Ltd and Medway Norse Transport.

Group planning materiality has been set at **£14.2 million**.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- the delivery of transformation savings and development of contingency measures to manage overspending and financial risk;

- financial resilience of Medway Development Company and delivery of its business plan; and
- financial reporting and audit readiness arrangements, including the capacity and capability of the Council’s finance team.

We will continue to monitor and update our risk assessment and responses until we issue our Auditor’s Annual Report.

Audit logistics

Our planning audit visit took place between February and April 2026 and our final visit will take place from June to September. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor’s Report and Auditor’s Annual Report.

Our proposed fee for the audit is **£451,747** (PY: £443,336) for the Council, subject to the Council delivering a good set of financial statements and working papers, no significant changes in scope to the Audit, management being responsive to audit requests and providing sufficient appropriate audit evidence when requested.

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.

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 | Audit team's assessment | Planned audit procedures |
|---|---|--|
| <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>Risk relates to</p> <p>Council and Group</p> | <p>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.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate the design and implementation effectiveness of management controls over journals at the Council; • review accounting estimates, critical judgements and decisions made by Council management and consider their reasonableness in conjunction with corroborative or contradictory evidence; • analyse the Council's journals listing and determine the criteria for selecting high risk unusual journals, for example, journals created by senior management, year-end adjustment journals and journals posted in preparing the financial statements; • test unusual journals made by the Council during the year and after the draft accounts stage for appropriateness and corroboration; and • send group instructions to component auditors for the subsidiary companies to request assurances over work undertaken in respect of the above points for respective components. |

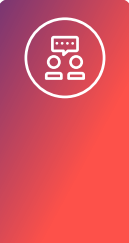


“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of 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).

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|--|--|--|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue</p> <p>Risk relates to</p> <p>Group</p> | <p>We have identified and completed a risk assessment of all revenue streams for the Council and the 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 subsidiary companies. 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. As noted on page 40 of this Audit Plan, our group risk assessment remains indicative at this stage as consolidation working papers were not made available during the 2024/25 audit. This risk assessment therefore remains subject to revision as working papers for 2025/26 are received and reviewed by the audit team. We will review the risk assessment position upon receipt of group accounts and consolidation working papers for 2025/26 and report any revisions to the Audit Committee.</p> <p>Where we have rebutted the risk of fraud in revenue recognition for revenue streams this is due to the low fraud risk in the nature of the underlying transactions, or immaterial nature of the revenue streams both individually and collectively.</p> | <p>For the revenue streams of the subsidiary companies, we will:</p> <ul style="list-style-type: none"> • 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, including through the consolidation process; • send group audit instructions to component auditors for the subsidiary companies to request assurances over work undertaken in respect occurrence, accuracy and completeness of revenue; and • review the component auditors' working files and evaluate the results of their work to determine whether sufficient assurance has been gained in respect of the Group position to address the identified risk. |



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 | Audit team's assessment | Planned audit procedures |
|---|---|--|
| <p>The expenditure cycle includes fraudulent transactions</p> <p>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 expenditure 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.</p> <p>Risk relates to</p> <p>Council and Group</p> | <p>We have identified and completed 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 for all expenditure streams and assessed 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.</p> <p>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, or immaterial nature of the expenditure streams both individually and collectively.</p> <p>We have rebutted the risk in the following expenditure streams:</p> <ul style="list-style-type: none"> • payroll-related expenditure; • collection fund, housing benefits and housing revenue account revenue expenditure; • depreciation, amortisation and impairment; and • interest payments. <p>All other expenditure streams are deemed significant risks.</p> | <p>For significant risk expenditure streams, we will:</p> <ul style="list-style-type: none"> • evaluate the Council and Group'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 creditors and accruals to invoices or other supporting evidence; and • carry out testing on sample basis of invoices received in the period prior to and following 31 March 2026 to determine whether expenditure is recognised in the correct accounting period, in accordance with the amounts billed by the corresponding parties. |

Table continues overleaf

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|--|---|---|
| <p>Valuation of land and buildings</p> <p>Risk relates to Council</p> | <p>The Council revalues its land and buildings on a rolling five-yearly basis in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). The Council engages an external expert valuer to perform the valuations for all land and buildings which are due for full valuation in any given year.</p> <p>The valuation of land and buildings represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> <p>The 2025/26 CIPFA Code introduces a new revaluation expedient for Property, Plant and Equipment, including land and buildings, requiring assets to be revalued at least every five years, or on a five-yearly rolling programme, with interim years supported by indexation. The Council plans to apply indexation to the land and buildings not subject to a full revaluation as at 31 March 2026.</p> | <p>We will:</p> <ul style="list-style-type: none"> document our understanding management's process and controls for the calculation of the estimate; evaluate the competence, capabilities and objectivity of management's expert; evaluate the consistency of the disclosure with the valuation report; evaluate the basis on which the valuations have been carried out; evaluate the information and assumptions used by the valuer; evaluate the accounting entries for the valuation; evaluate the reasonableness of the assumptions used to form the estimate; engage an auditor's expert valuer to assist in the audit of the valuation; test a sample of assets back to supporting evidence to ensure the values calculated are reasonable; and following the updates in the 2025/26 CIPFA Code, we will review management's assumptions in selecting and applying indices to ensure that both the chosen indices and asset groupings to which they are applied are reasonable. |

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|---|--|---|
| <p>Valuation of council dwellings</p> <p>Risk relates to</p> <p>Council</p> | <p>Council dwellings are subject to annual reviews and full revaluations every five years for the whole stock. The Council engages an external expert valuer to perform the valuations for all council dwellings.</p> <p>The Council's expert adopts a beacon approach to value housing stock. This valuation methodology 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). The Council has considered the selection of distinct asset groups within the housing area, which are chosen to reflect the areas in which individual value markets operate.</p> <p>This valuation represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> <p>The key assumptions for council dwellings are the beacon valuations used by the valuer and their application to each asset group, and our testing will therefore focus on this area.</p> | <p>We will:</p> <ul style="list-style-type: none"> • document our understanding management's process and controls for the calculation of the estimate; • evaluate the competence, capabilities and objectivity of management's expert; • evaluate the consistency of the disclosure with the valuation report; • evaluate the basis on which the valuations have been carried out; • evaluate the information and assumptions used by the valuer; • evaluate the accounting entries for the valuation; • evaluate the reasonableness of the assumptions used to form the estimate; • focus on the beacon valuation used by the valuer; • 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; and • engage an auditor's expert valuer to assist in the audit of the valuation. |

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|---|---|---|
| <p>Valuation of investment properties</p> <p>Risk relates to</p> <p>Council and Group</p> | <p>The Council revalues its investment properties with a value of £100,000 or above on an annual basis to ensure that these assets are held at fair value at the financial statements date.</p> <p>The valuation of investment properties represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> <p>The key assumptions for investment property are the yield rates applied by the valuer for each valuation and our testing will therefore focus on this area.</p> | <p>We will:</p> <ul style="list-style-type: none"> • document our understanding management's process and controls for the calculation of the estimate; • evaluate the competence, capabilities and objectivity of management's expert; • evaluate the consistency of the disclosure with the valuation report; • evaluate the basis on which the valuations have been carried out; • evaluate the information and assumptions used by the valuer; • evaluate the accounting entries for the valuation; • evaluate the reasonableness of the assumptions used to form the estimate; • focus our testing on the yield rates used by the valuer; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and • engage an auditor's expert valuer to assist in the audit of the valuation. |

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|---|--|---|
| <p>Valuation of the net pension fund asset or liability</p> <p>Risk relates to</p> <p>Council</p> | <p>The valuation of the pension fund net asset or liability represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.</p> | <p>We will:</p> <ul style="list-style-type: none"> • document our understanding management's process and controls; • evaluate the competence, capabilities and objectivity of management's expert; • evaluate the consistency of the disclosure with the actuarial report; • evaluate the reasonableness of the assumptions used to form the estimate; • obtain assurances from the Kent County Council pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate; and • where IFRIC 14 is applicable, review the Council's IFRIC 14 assessment carried out by the actuary and evaluate the reasonableness of the assumptions used as part of the assessment. |

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|--|---|--|
| <p>Accounting for IFRS 16 Leases</p> <p>Risk relates to</p> <p>Council</p> | <p>IFRS 16 was implemented for local authorities from 1 April 2024. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17.</p> <p>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.</p> <p>The recognition of lease liabilities and right of use assets arising from the implementation of IFRS 16 represents significant estimates in the financial statements due to its size, complexity and sensitivity to changes in key assumptions, particularly where formal lease agreements are not in place.</p> <p>During the 2024/25 audit, the Council was unable to provide working papers and audit evidence supporting the complete and accurate implementation of IFRS 16, the associated accounting entries, and disclosures within the financial statements. Therefore we were unable to conclude on whether the implementation of the new standard by the Council had led to materially accurate accounting entries and disclosures in advance of the national backstop date.</p> <p>We have therefore identified accounting for this new standard as a significant risk of material misstatement for the 2025/26 financial statements.</p> | <p>We will:</p> <ul style="list-style-type: none"> revisit our review of 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; and review the Council's disclosures related to leases under IFRS 16 to ensure completeness, accuracy, and compliance with the standard's disclosure requirements. |

Significant risks identified (continued)

| Significant risk | Audit team's assessment | Planned audit procedures |
|---|---|--|
| <p>Group accounts consolidation</p> <p>Risk relates to</p> <p>Council and Group</p> | <p>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.</p> | <p>We will:</p> <ul style="list-style-type: none"> • agree consolidation schedules to supporting records; • test material consolidating adjustments to supporting records; • send group instructions to the auditors of the group components to inform the scope of the work required to gain assurance over the group position; • review the results of the work of component auditors to inform our group audit opinion; and • review group accounting disclosures are in accordance with the Code. |

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 |
|--|---|--|
| <p>Reinforced autoclaved aerated concrete (RAAC)</p> <p>Risk relates to Council and Group</p> | <p>In 2023, the Council identified RAAC in its headquarters in Gun Wharf, Chatham. The building is set to undergo a programme of essential repairs and improvements.</p> <p>Councillors approved the addition to the capital programme of £22 million, funded through a combination of borrowing, capital receipts and revenue savings.</p> | <p>We will:</p> <ul style="list-style-type: none"> discuss with management and understand the steps taken to identify RAAC in the Council’s other buildings; assess the impact of RAAC on the building’s valuation; and evaluate the adequacy of related disclosures in the financial statements. |
| <p>Application for Exceptional Financial Support (EFS)</p> <p>Risk relates to Council</p> | <p>The Council has been in receipt of Exceptional Financial Support (EFS) via a capitalisation direction from the Secretary of State for Housing, Communities and Local Government to enable it to set a balanced budget since 2024/25. This permits certain revenue expenditure to be recognised as capital and funded from capital sources. There is therefore a risk that revenue expenditure is inappropriately capitalised if it does not meet the conditions of the Government’s direction.</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate the Council’s accounting treatment for EFS and capitalisation of associated expenditure; update our understanding of the system for accounting for the capitalised expenditure and evaluate the design of associated processes and controls; 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; and ensure that the Capitalisation Direction has been issued in writing by the Secretary of State. |



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

- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

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.

Description

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, sector developments, financial stability and reporting requirements for the financial statements

Planned audit procedures

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.

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.

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.

Our approach to materiality (continued)

| Description | Amount (£) | Qualitative factors considered |
|---|-------------|--|
| Materiality for the Group financial statements | £14,200,000 | The following factors were considered when determining the thresholds for the Council and Group: |
| Materiality for the Council financial statements | £13,900,000 | <ul style="list-style-type: none"> • Financial information available at the time of materiality determination • Our understanding of the Council and Group's internal control • The strength and effectiveness of the Council's internal controls over financial reporting of its group accounts • Errors identified in prior years' auditor's reports |
| Materiality for specific transactions, balances or disclosures: senior officers' remuneration | £20,000 | The remuneration of senior officers is of key interest to users of the financial statements in a local government context, as their remuneration is formed of taxpayers' money and is frequently the subject of news and media attention |



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)

Progress against prior year audit recommendations

We identified the following issues in our 2024/25 audit of the Council's financial statements, which resulted in four recommendations being reported in our 2024/25 Audit Findings Report. We have followed up on the implementation of our recommendations and these are still to be addressed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue(s) |
|-------------|---|--|
| Addressed | <p>Weak password configuration settings on Integra</p> <p>On inspection of the Integra password settings, we noted that the account lockout duration is set at 1 minute. This is deemed to be a short lockout duration.</p> <p>Risk</p> <p>A lack of robust password settings may allow financial information to be compromised by unauthorised users. In particular, a short lockout duration makes it easier for attackers to repeatedly attempt password combinations until they succeed, increasing the risk of unauthorized access</p> | <p>Management response</p> <p>We have extended the lockout duration to 30 minutes. We have also read through the guidelines provided by NCSC and have made some further changes to our settings, this includes the minimum time between changes, which has been increased this to 90 days. The current configuration does not permit a higher setting for this control.</p> <p>Impact on audit procedures</p> <p>Our IT audit team have undertaken their procedures relating to Integra for 2025/26 and have confirmed that this finding has been adequately addressed. We will report any IT audit findings relating to 2025/26 in our Audit Findings Report.</p> |
| In progress | <p>User access to post journals</p> <p>As part of our audit testing, we observed that temporary work placement employees are able to post journals. However, when they leave the Authority, their access remains active because the information to disable their access is not communicated.</p> <p>Risk</p> <p>The failure to disable access for temporary work placement employees after their departure increases the risk of unauthorised access to the Authority's financial records</p> | <p>Management response</p> <p>The finance systems team, responsible for the administration of the finance system will undertake a review to ensure that where possible, only those users that need to be able to post on the system are able to do so, and work with management to ensure that access is disabled promptly for temporary employees upon their departure from the Council.</p> <p>Impact on audit procedures</p> <p>We will review the effectiveness of the implementation of management's actions as part of our evaluation of the journal entry control environment for 2025/26 to determine whether this recommendation has been addressed.</p> |

Progress against prior year audit recommendations (continued)

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue(s) |
|-------------|--|---|
| In progress | <p>Long standing and unreconciled cash items.</p> <p>During our review of the cash balance and the debtors balance within the statement of accounts, we identified a large amount of unallocated cash at year-end which has left an unallocated balance of £2 million within the debtors' balance.</p> <p>In addition to this, as part of our review of the bank reconciling items, we have identified long standing reconciling items dating back to as early as 2020 which have not been resolved.</p> <p>Risk</p> <p>The presence of a large amount of unallocated cash and an unallocated balance of £2 million in the debtors' balance indicates potential issues with cash management and accounting practices. This could lead to financial misstatements, difficulties in cash flow management, and an inability to accurately assess the organization's financial position.</p> | <p>Management response</p> <p>Management agree to perform a thorough review of the unallocated cash and the debtors balances, the reasons they were held as unallocated and look to allocate these as quickly as possible. We will continue with our review of business processes to ensure we are both reviewing and resolving bank reconciliation items regularly and ensuring longstanding items are closed within three months.</p> <p>Impact on audit procedures</p> <p>We will review the effectiveness of the implementation of management's actions as part of our testing of the cash and debtors balances during the 2025/26 audit.</p> |

Progress against prior year audit recommendations (continued)

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue(s) |
|-------------|---|--|
| In progress | <p>Lack of sufficient supporting documents and working papers.</p> <p>While conducting sample testing of transactions across multiple areas of the accounts, we found; samples lacking sufficient supporting evidence, instances where the evidence provided did not align with the selected sample, and cases where the samples did not reconcile appropriately. In some instances, no working papers have been provided. This indicates a deficiency in the Authority's record-keeping practices and further highlights the capacity constraints within the Authority to deal with audit requests.</p> <p>Risk</p> <p>There is a risk of inaccurate financial reporting as a result of lack of sufficient evidence.</p> | <p>Management response</p> <p>Management recognises that improvements need to be made and has already commenced that process, including training sessions where issues have been raised with specific examples provided by Grant Thornton as to the types of evidence required. Planning for the 2025/26 audit is well underway, and we intend to work closely with all services within the Council to ensure the best preparation is undertaken. Further Council wide training sessions have been ongoing, and these will continue to be offered to those involved in the audit of the financial statements. A robust timetable will be set to ensure that all deadlines are met, and the Council can move forwards to obtain a successful audit for 2025/26.</p> <p>Impact on audit procedures</p> <p>We will review the effectiveness of the implementation of management's actions during the course of the 2025/26 audit.</p> |

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 audits and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audits 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: <ul style="list-style-type: none"> • Understanding IT general controls • Understanding of the IT environment • System functionality operating to design • IT general controls segregation of duties • Cyber security workplan |

Value for Money Arrangements

Approach to Value for Money work for the period ended 31 March 2026

The National Audit Office updated its Code of Audit Practice in November 2024. The Code expects auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report a commentary each year under the specific reporting criteria and where significant weaknesses in arrangements are identified. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement was introduced from November 2025. The three specified reporting criteria are set out below:

Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our AAR. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. Any significant weaknesses identified will be reflected in our AAR and included within our audit opinion.

Risks of significant weakness in VFM arrangements

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 2025/26. 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 our reported assessment below:

| Criteria | 2024/25 Assessment of arrangements | 2025/26 Risk assessment | 2025/26 risk-based procedures planned |
|--------------------------|--|--|--|
| Financial sustainability | <p>Red</p> <p>One significant weakness identified in relation to the Council’s delivery of transformation savings and development of contingency measures to manage overspending and financial risk</p> | <p>Risk of significant weakness identified in 2024/25 relating to delivery of transformation savings and contingency plans carried forward. One additional risk of significant weakness identified relating to the financial resilience of Medway Development Company (MDC) and the delivery of its business plan.</p> | <p>Additional risk based procedures will include:</p> <ul style="list-style-type: none"> • a review of how savings plans are identified and delivered in year and over the medium term, including gaining an understanding of how reserves are planned to be protected at sustainable levels; • a review of how cost and demand is being mitigated in within Adults and Children’s Social Care; • a review how the Council are mitigating financial risk, including repayment of outstanding MDC loans and Minimum Revenue Provision. |

- Green** No significant weaknesses or improvement recommendations.
- Amber** No significant weaknesses, improvement recommendation(s) made.
- Red** Significant weaknesses in arrangements identified and key recommendation(s) made.

Risks of significant weakness in VFM arrangements (continued)

| Criteria | 2024/25 Assessment of arrangements | 2025/26 Risk assessment | 2025/26 risk-based procedures planned |
|--|---|---|---|
| Governance | <p>Red</p> <p>One significant weakness identified in relation to the Council’s financial reporting and audit readiness arrangements, in particular the capacity and capability of the finance team</p> | <p>Risk of significant weakness identified in 2024/25 relating to financial reporting and audit readiness arrangements carried forward.</p> | <p>Additional risk based procedures will include:</p> <ul style="list-style-type: none"> • a review of the budget setting process, and an analysis of finance staff involvement and Officer oversight throughout the process; and • a review of the resources allocated to the finance team and how capacity is being strengthened. |
| Improving economy, efficiency and effectiveness | <p>Green</p> <p>No risks of significant weakness reported and no improvement recommendations made</p> | <p>No risks of significant weakness identified</p> | <p>As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code and follow up improvement recommendations made in 2024/25.</p> |

- Green** No significant weaknesses or improvement recommendations.
- Amber** No significant weaknesses, improvement recommendation(s) made.
- Red** Significant weaknesses in arrangements identified and key recommendation(s) made.

Risks of significant VFM weaknesses

As part of our initial planning work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources where we needed to perform additional procedures. The risks we have identified are detailed on the table overleaf along with the further work we will perform. We will continue to review the Council's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. 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 table below.

Potential types of recommendations



Statutory recommendation

Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council 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 Council. We have defined these recommendations as 'key recommendations'.

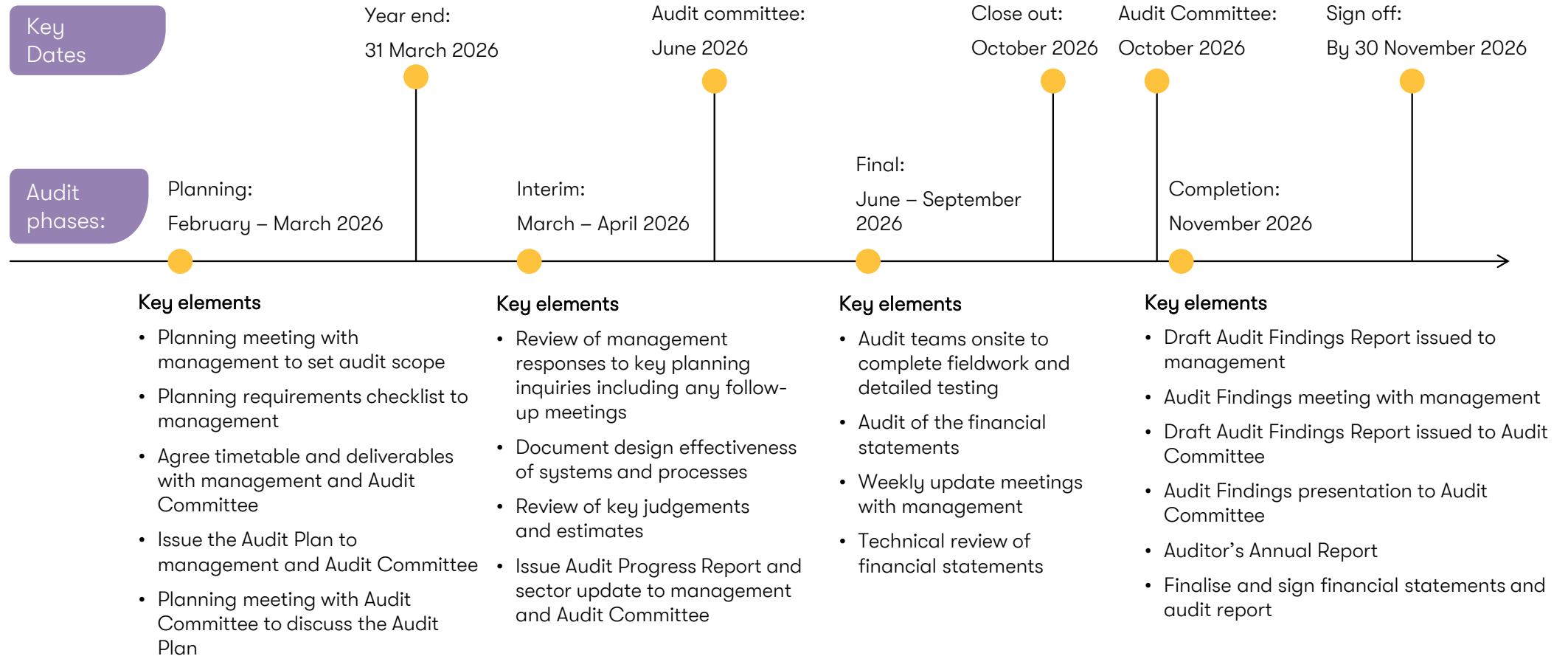


Improvement recommendation

Auditors may also include areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements. These recommendations set out actions for consideration which are not a result of identifying significant weaknesses in arrangements, but which if not addressed could increase the risk of a significant weakness in future periods.

Logistics

The audit timeline



Our team and communications

Grant Thornton core team

Matt Dean

Engagement Lead / Key Audit Partner

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

Ellen Millington

Senior Audit Manager

- Resource management
- Performance management and reporting

Antoinette Mtembu

Assistant Audit Manager

- 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 and audit digital specialists)

| | Service delivery | Audit reporting | Audit progress | Technical support |
|--------------------------------|--|--|--|--|
| Formal communications | <ul style="list-style-type: none"> • Annual client service review | <ul style="list-style-type: none"> • Audit Plan • Audit Findings Report • Auditor’s Annual Report | <ul style="list-style-type: none"> • Audit planning meetings • Audit clearance meetings • Communication of issues log | <ul style="list-style-type: none"> • Technical updates |
| Informal communications | <ul style="list-style-type: none"> • Open channel for discussion | | <ul style="list-style-type: none"> • Communication of audit issues as they arise | <ul style="list-style-type: none"> • Notification of up-coming issues |

Our fee estimate

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 and Group will:

- prepare good quality sets 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 estimates 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; and
- 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 land and buildings, council dwellings, investment properties and surplus assets;
 - valuation of the net pension scheme asset or liability;
 - valuation of complex financial instruments.

Previous year

In 2024/25 the scale fee set by PSAA was £443,336, which was the actual fee charged for the audit

As the audit report from the 2024/25 (and previous years) audit is a disclaimer of opinion due to the imposition of a backstop date, we will need to undertake further audit work in future years in respect of opening balances. We will discuss the practical implications of this with you.

| Company | Audit Fee for 2024/25 (£) | Proposed fee for 2025/26 (£) |
|-------------------------|------------------------------|---------------------------------|
| Council and Group audit | 443,336 | 451,747 |
| Total (Exc. VAT) | 443,336 | 451,747 |

Our fee estimate (continued)

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 audits for the Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2025/26 audit is **£451,747**.

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 or opinion issued (but not before 1 December 2025)
- 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.

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

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. In this context, we confirm that there are no matters that we are required to report.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

Table continues overleaf

Independence considerations (continued)

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 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 or Group. |
| 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 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 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 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.

Following this consideration, we can confirm that we are independent at planning and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Fees and non-audit services

The following tables below sets out the non-audit services that we have been engaged to provide or charged from the beginning of the financial year to June 2026, and expected services to November 2026 when we anticipate signing the audit opinion, 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 Council and Group'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 £ (Final (F) / Proposed (P)) | Threats Identified | Safeguards applied |
|--|--|---|--|
| Agreed-upon procedures relating to the Housing Benefits subsidy claim form | 2021/22 – Completed: £52,000 (F) 2022/23 – In progress: £20,000 + £900 (daily rate for additional workbooks) (P) 2023/24 – In progress: £30,000 + £1,200 (daily rate for additional workbooks) (P) 2024/25 and 2025/26 – Not started: TBC | <ul style="list-style-type: none"> • Self-interest (because this is a recurring fee) • Self-review (because GT provides audit services) • Management | <p>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 low in comparison to the total fee for the 2025/26 audit of £451,747, 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.</p> <p>The work will be carried out by a separate team to the financial statement audit team and after the financial statement audit opinion has been issued.</p> <p>Grant Thornton is not responsible for the preparation of the Housing Benefit subsidy claim form or any amendments made to it as a result the findings of our work.</p> |

Table continues overleaf

Fees and non-audit services (continued)

Assurance Service Fees

| Service | Fees £ (Final (F) / Proposed (P)) | Threats Identified | Safeguards applied |
|--|---|---|---|
| Agreed-upon procedures relating to the Teachers' Pension End of Year Certificate | 2021/22 – In progress: £8,000 (P) 2022/23 – In progress: £10,000 (P) 2023/24 – In progress: £12,500 (P) 2024/25 – Not started: £12,500 (P) 2025/26 – Not started: TBC | <ul style="list-style-type: none"> • Self-interest (because this is a recurring fee) • Self-review (because GT provides audit services) • Management | <p>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 low in comparison to the total fee for the 2025/26 audit of £451,747, 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.</p> <p>The work will be carried out by a separate team to the financial statement audit team and after the financial statement audit opinion has been issued.</p> <p>Grant Thornton is not responsible for the preparation of the Teachers' Pension End of Year Certificate or any amendments made to it as a result the findings of our work.</p> |

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

Fees and non-audit services (continued)

Assurance Service Fees

| Service | Fees £ (Final (F) / Proposed (P)) | Threats Identified | Safeguards applied |
|---|--|---|--|
| Agreed-upon procedures relating to the Pooled Housing Capital Receipts return | 2023/24 – Completed: £10,000 (F) 2024/25 – Not started: £10,000 (P) 2025/26 – Not started: TBC | <ul style="list-style-type: none"> • Self-interest (because this is a recurring fee) • Self-review (because GT provides audit services) • Management | <p>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 low in comparison to the total fee for the 2025/26 audit of £451,747, 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.</p> <p>The work will be carried out by a separate team to the financial statement audit team and after the financial statement audit opinion has been issued.</p> <p>Grant Thornton is not responsible for the preparation of the Pooled Housing Capital Receipts return or any amendments made to it as a result the findings of our work.</p> |
| Total | XXX | | |

Total audit and non-audit fee

| | |
|--------------------------------|---|
| 2025/26 - £451,747 (Audit fee) | 2021/22 - £60,000 (Non-Audit fee) 2022/23 - £30,000 (Non-Audit fee) 2023/24 - £52,500 (Non-Audit fee) 2024/25 - £22,500 (Non-Audit fee) 2025/26 - TBC (Non-Audit fee) |
|--------------------------------|---|

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

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 | ● | ● |

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

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

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

Communication of audit matters with those charged with governance (Continued)

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.

| Our communication plan | Audit Plan | Audit Findings Report |
|---|------------|-----------------------|
| 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 | | ● |

Escalation Policy

The Backstop

The Ministry for Housing, Communities and Local Government 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 Council'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.

Financial reporting changes

Changes to the CIPFA Code of practice on local authority accounting for 2025/26

The main change is a revaluation expedient for property, plant and equipment. From 1 April 2025, revaluations are required once every five years or on a five year rolling basis with indexation in intervening years. This is a substantial change to the accounting for non current asset, that may require engagement with valuers, changes to underlying systems, asset records and accounting treatment.

New or revised accounting standards that are expected to be adopted by the CIPFA Code in future years.

Amendment to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity

The International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 to improve the reporting of nature-dependent electricity contracts, such as power purchase agreements (PPAs). These contracts, which secure electricity from sources like wind and solar power, can vary due to uncontrollable factors like weather. The amendments clarify the 'own-use' requirements, permit hedge accounting for these contracts, and introduce new disclosure requirements to help users of the accounts understand their impact on an entity's financial performance and cash flows. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

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 (including settling financial liabilities using an electronic payment system), adds guidance on the solely payment of principal and interest (SPPI) criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).

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 comprehensive income and expenditure statement as well as introduce specific disclosure requirements. Some of the key changes are:

- introducing new defined categories for the presentation of income and expenses
- 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 will be effective in the UK from 1 January 2027 and so could impact the CIPFA Code from [2027/28](#).

Indicative group audit scope and risk assessment

We have undertaken an indicative risk assessment and scoping for the group and its components based on information available to us at the time. As noted in our 2024/25 Audit Findings Report, consolidation working papers were not made available during the 2024/25 audit ahead of the backstop deadline. This risk assessment therefore remains subject to revision as working papers for 2025/26 are received and reviewed by the audit team.

| 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 pages 6 to 15 of this report | Grant Thornton UK |
| Kyndi Ltd | Yes | Specific audit procedures | Component auditor | <ul style="list-style-type: none"> • Management override of controls • Fraud in revenue recognition • Fraud in operating expenditure and associated creditor balances • Cash and cash equivalents | Lindeyer Francis Ferguson UK |
| Medway Development Company Ltd | Yes | Specific audit procedures | Component auditor | <ul style="list-style-type: none"> • Management override of controls • Fraud in revenue recognition and associated short-term debtor balances • Fraud in operating expenditure and associated creditor balances • Valuation of investment properties • Inventories | Kreston Reeves LLP |

Indicative group audit scope and risk assessment (continued)

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.

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.

Involvement in the work of component auditors

In order to use the work of the component auditors, 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 Lindeyer Francis Ferguson UK and Kreston Reeves LLP will begin with discussions on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Lindeyer Francis Ferguson UK and Kreston Reeves LLP audit documentation and meeting with appropriate members of management.

We will also require that the component auditors are 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 auditors' 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.



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