Medway Council
Meeting of Audit Committee
Wednesday, 24 June 2026
6.30pm to 7.52pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

Present:	Councillors: Browne (Chairperson), Nestorov (Vice-Chairperson), Bowen, Hackwell BEM and Lawrence
In Attendance:	Anumesh Chandra, Independent Member, Audit Committee Steve Dickens, Democratic Services Officer Abbey Gough, Chief Finance Officer Andy McNally-Johnson, Head of Corporate Accounts Ellen Millington, Senior Audit Manager, Grant Thornton Phil Watts, Chief Operating Officer

102 Apologies for absence

An apology for absence was received from Councillor Hackwell

103 Record of meeting

The record of the meeting held on 19 March 2026 was agreed and signed by the Chairperson as correct.

104 Urgent matters by reason of special circumstances

The Chairperson welcomed the new Chief Finance Officer, Abbey Gough and Senior Audit Manager, Grant Thornton, Ellen Millington to the Committee.

105 Disclosable Pecuniary Interests and Other Significant Interests

<u>Disclosable pecuniary interests</u>

There were none.

<u>Other significant interests (OSIs)</u>

There were none.

<u>Other interests</u>

There were none.

106 Audit Plan For The Year Ending 31 March 2026

Discussion:

The Senor Audit Manager, Grant Thornton introduced the report which provided an update on the audit plan for 2025/26 including the risk assessment associated with the Council's financial statements, group accounts and a value for money assessment.

It was planned to complete the audit in an accelerated timeframe, with an opinion provided by 30 November 2026. This would be the statutory deadline to complete audits from 2027. To meet the deadline the majority of testing must be completed by mid-September and there were interim milestones and targets to support progress towards this target.

The plan set out the risks and the areas the external auditors intended to focus on. The Audit would consider the management override procedures which was a nationally recognised fraud risk, journal entry testing and account estimating including the spending and revenue position which was an area of risk for the Council.

The Audit would in addition consider IFRS16, property valuations of leases, which was a new risk introduced last year, although work was not able to be fully completed in this area in 2024/25. A further risk to the Council related to consolidated group accounts due to their complexity and this was an area of focus for the auditors. Grant Thornton had met with auditors of the subsidiary companies and would rely on the work undertaken by the auditors to inform its work. A scope and timeframe for the required work had been agreed.

In relation to the Value For Money assessment the audit will focus on previous key recommendations, the financial improvement plan and the resilience of the finance team.

The following issues were discussed:

Disclaimed Opinion – in response to a question as to how common was the Council's position of a disclaimed opinion, the Chief Operating Officer stated that around half of the authorities in the Kent region had one or more disclaimed audit opinions and it was common nationally. The Senior Audit Manager Grant Thornton added that 216 of 459 authorities were currently in receipt of a disclaimed audit opinion.

Finance Service – further information was requested regarding the outcome of the rightsizing exercise, the Chief Operating Officer stated that the Council had invested around £1m in the back office budget for finance including six additional posts in the accounting function, however, the full benefit had not yet been felt due to some long term sickness and HR issues. In terms of leadership capacity, two financial consultants had been recruited to support the additional work required towards Local Government Reform (LGR) and review the overspend on Adult Social Care. This would enable senior management to provide the necessary leadership for the day-to-day work.

Information was requested on the outcome of the finance workshop, The Chief Operating Officer stated that the workshop had been held and a review of functions undertaken, there was a 30 point action plan and the finance forum for senior members of the team had been reinstated.

Audit Plan – a Member commented that the plan to complete the audit by 30 November 202was aspirational and asked what milestones and targets were in place to support progress. The Chief Operating Officer stated that he was confident it would be achieved.

The Senior Audit Manager, Grant Thornton, added that the priority was to undertake a full, normal audit this year focused on in-year transactions and the closing balance to promote a stable position for future years enabling a move away from the Council receiving a disclaimed opinion. There were week by week milestones to measure progress, in addition Grant Thornton had internal controls including a project plan and daily monitoring of progress to ensure the audit remained on track.

The Council had worked in partnership with Grant Thornton, working papers had been shared and information requested at an early stage where appropriate to ensure information could be provided. Regular progress meetings were held twice a week and a weekly update provided to the Chief Operating Officer including points of escalation.

In response to a question whether the auditors had adequate resources to complete the audit in the required timeframe, the Senior Audit Manager Grant Thornton stated that she was confident the team had adequate resources to complete the audit.

The Head of Corporate Accounts stated that the finance team had improved practice compared to last year's audit. Finance Business Partners were working with services to improve the quality of information available to support transactions and quality checks were undertaken prior to the information being provided to the auditors. The audit was at an early stage of sampling however, the results so far had been positive.

Materiality – a Member commented that there had been a significant increase in materiality and trivial balances, he asked whether there had been a change in the risk profile for Medway. The Senior Audit Manager, Grant Thornton, explained the threshold level for a local authority to be categorized as a major local audit had risen from income of £500m to £875m, so Medway was now in a different category of audit and as a result this affected te assessment of materiality. There had been no factors specific to the Council which had changed its profile, however, there may be a reduction in the level of testing required.

Decision:

The Committee noted the updated Audit Plan for 2025/26 including the core fees and those proposed for other audit services.

107 Regaining Assurance Strategy for Medway Council

Discussion:

The Senior Audit Manager, Grant Thorton introduced the report, she explained that the Government had requested all audit firms agree a plan to get back to assurance which would be shared with local authorities via their Audit Committee. The high-level plan sets out the current position, challenges and a high-level plan to regain assurance. Challenges for Medway related to capacity and complexity of group accounts. It was important that the audit this year be completed on time to aid the regaining of assurance by 2027/28.

The following issues were discussed:

Capacity – a Member commented that he was concerned that Medway was considered to be in Category D (Not capable of an ISA-compliant approach by 2027/28 due to practical constraint) he asked whether the audit could be completed in time given the additional workload created by Exceptional Financial Support and LGR. The Chief Operating Officer stated that the Council had increased resources in the finance department and invested in two senior consultant roles to undertake work related to LGR and the Council's improvement journey. In his view this would improve the leadership capacity of the team and support progress on delivering the FIT Plan.

The Senior Audit Manager, Grant Thorton stated that the Government was concerned at the current situation and was exploring options to achieve a sector wide solution. Medway was not the only authority to have disclaimed opinions for a number of years. Currently twenty-four authorities audited by Grant Thornton were considered as Category D.

She added that it was acknowledged that LGR would be an issue going forward, and a disclaimed opinion may impact on successor authorities. The Government was moving forward with the creation of a local audit office to improve audit capacity.

The Chief Operating Officer added that LGR had focussed minds in the sector, whilst there was no penalty associated with disclaimed opinions, external stakeholders had no independent assurance about the financial position of the Council.

Financial position - it was asked whether the audit position had affected the Council's ability to procure loans. The Head of Corporate Accounts stated there were two ways of accessing loans, through the Public Works Loan Board (PWLB)or borrowing form other authorities. The PWLB rate was set nationally and not affected by the audit opinion. Other local authorities may consider the Council's audit position as part of their perception of risk when deciding whether to loan monies to the Council. The Chief Operating Officer added there had not been any practical effect in the Council's ability to access borrowing.

Common themes – it was asked whether there were any common themes in disclaimed audits, the Senior Auditor Grant Thornton stated that the current situation was unprecedented, building back assurance had begun and issues were focussed on transactions, balances and the closing position.

There was a distinction to be made between the general fund and the HRA. Auditors needed to gain assurance that spend which had been made a number of years ago correct, however, that was exceptionally challenging. There was ongoing discussion how this would realistically be achieved.

Decision:

The Committee noted the Regaining Assurance Strategy.

108 Treasury Management Outturn Annual Report

Discussion:

The Head of Corporate Accounts introduced the report. He highlighted that the net borrowing position had increased by £118m due to capital spending, Exceptional Financial Suport (EFS) and the need to borrow in advance of the receipt of monies owed to the Council. The increase in borrowing meant borrowing levels rose above the Capital Finance Requirement (CFR).

The following issues were discussed:

Lender Option, Borrower Option (LOBO) – a Member commented that there were some loans which may be called in under LOBO rules over the next 12months, he asked what the costs of reservicing such loans with further borrowing would be. The Head of Corporate Accounts stated that four loans which had been taken out at rates ranging from 3.6% to 4.75% could be called in, though the former loan was more likely to be called in than the others. If that loan was called in, the additional costs associated with a higher interest rate would add a pressure of around £60,000. If all four loans were called in, further borrowing would be taken at today's rates which would add a pressure of £130,000 to the budget.

Medway Development Company (MDC) – a Member requested an update on queries regarding the financial resilience of MDC discussed at previous meetings. The Chief Operating Officer stated that the cashflow analysis he requested had been undertaken and provided to Grant Thornton, however no conclusion had yet been reached.

Finance costs – a Member expressed concern at the rise in borrowing in the last year and, the cost of financing that borrowing. It was asked whether this would be affordable if interest rates were to rise. The Head of Corporate

Accounts explained that the budget for 2025/26 had made assumptions that interest rates would fall, however this had not been the case, interest rates went up, this was exacerbated by an error in the budget build which had omitted some borrowing. Therefore, more borrowing at a higher cost than predicted was required leading to the overspend on the finance and interest budget of £6.3m for the year.

Debt repayment – in response to a question what debt had been repaid through property disposal, the Head of Corporate Accounts stated that £18m-£19m had been realised and £2.9m had been used as capital receipts as part of the transformation budget. £1m had been added to the capital programme and £13.6m allocated to debt which allowed the Council to not take out additional borrowing which would have otherwise been required. Throughout the year £257m in debt had been redeemed, some of which was short term, a few days up to a few months. Some of that had been financed through new borrowing and it total £386m had been borrowed, which reflected the increased overall borrowing during the year.

Debtors – in response to a question about debtors to the Council, the Chief Operating Officer stated that finance were currently working on a briefing paper previously requested regarding an analysis of the debt owed to the Council.

Decision:

The Committee noted the treasury management outturn annual report.

Chairperson

Date:

Steve Dickens, Democratic Services Officer

Telephone: 01634 332051
Email: democratic.services@medway.gov.uk