

Council

15 October 2026

External Auditor's Statutory Recommendations

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer

Author: Phil Watts, Chief Operating Officer

Summary

This report presents the statutory recommendations made by the Council's external auditor, following publication of the 2025/26 financial statements. It also sets out management's response to these recommendations and its proposed actions.

The report also sets out the CIPFA External Assurance Review undertaken earlier this year, which was published in August.

1. Recommendations

- 1.1. The Council is requested to note the recommendations made by the external auditor (Grant Thornton), as set out in Appendix 1 to the report.
- 1.2. The Council is requested to approve the management action proposed in response to these recommendations, as set out in Appendix 1 to the report.
- 1.3. The Council is requested to note the external assurance review of the Council, undertaken by CIPFA, as set out in Appendix 2 to the report.

2. Budget and policy framework

- 2.1. Schedule 7 of the Local Audit and Accountability Act 2014 requires the Council to consider the recommendations at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council, as set out in paragraph 10.1 of the report.

3. Background

- 3.1. The Council has been engaged in discussions with the external auditor, Grant Thornton, for a period of time regarding the Council's finances. In its Annual Report for the financial year ended 31 March 2025, the Auditor made two key recommendations which are set out below:

- 3.1.1. KR1: The Council should urgently accelerate delivery of transformation savings and develop robust contingency measures to manage overspending and financial risk.
- 3.1.2. KR2: The Council should urgently strengthen its financial reporting and audit readiness arrangements by increasing capacity and capability within the finance team and implementing a structured improvement plan. This should include; recruiting additional permanent or interim financial reporting specialists to address current capacity constraints; restoring senior leadership capacity through securing a Director of Finance (or interim support); and ensuring timely production of high-quality working papers.
- 3.2. Following more recent discussions in advance of the audit of the 2025/26 financial statements, the external auditor has decided to exercise its powers and duties under the Local Audit and Accountability Act 2014 to make written statutory recommendations to the Council “due to the Council’s forecast General Fund deficit for 2026/27, after accounting for Exceptional Financial Support which has been agreed in principle, the low level of unearmarked useable reserves relative to the scale of the forecast deficit, and the impact of this on the financial sustainability of the Council. We have also concluded that it is appropriate for us to use our powers to make a second associated written recommendation under section 24 of the Act due to the Council’s arrangements for preparation of its annual financial statements and ability to respond to the requirements of external audit”. This report was issued on 1 October 2026, as set out in Appendix 1 to the report.
- 3.3. The external auditor’s written statutory recommendations are set out under the following headings:
 - 3.3.1. Strengthening financial planning arrangements;
 - 3.3.2. Strengthening financial reporting and audit readiness arrangements.
- 3.4. The external auditor’s detailed recommendations and management’s response, i.e. Medway Council, is set out in pages 5-12 of Appendix 1.
- 3.5. Members will also be aware of the proactive work which has been undertaken by the Council in response to financial challenges. The Council engaged with CIPFA to undertake an assurance review for the Ministry of Housing, Communities, Housing and Local Government (MHCLG) in September 2024, and a further external assurance review was undertaken by CIPFA earlier this year which was published in August, as set out in Appendix 2 to the report.

4. Advice and analysis

- 4.1. In summary, the Council is recommended to note the recommendations made by the external auditor and to approve the management responses, as set out in Appendix 1. This proposed management action aligns very closely and largely overlaps with management’s response to the fourteen recommendations made by CIPFA in its recent Assurance Review report.

- 4.2. Members can be assured by the external assurance review undertaken by CIPFA that “overall, financial management and the management of risk in Medway Council is good and the council has responded positively to past recommendations to improve the quality of financial management.” However, it is clear that there are a number of challenges particularly in relation to the adult social care budget. Given the particular issues facing this service, the Health and Adult Social Care Overview and Scrutiny Committee are considering this particular issue in detail at its meeting on 13 October 2026.
- 4.3. In response to the issues raised by CIPFA regarding the loss of two senior finance staff, these posts have now both been filled by talented and experienced individuals which will greatly help in boosting capacity within the team. Furthermore, the team has been supplemented, on a fixed term basis, by two financial consultants, both former local authority senior finance professionals and both bringing a wealth of experience and expertise to support the Chief Finance Officer and Chief Operating Officer in addressing the recommendations made.
- 4.4. The actions proposed in response to both the Auditor’s statutory recommendations and those made by CIPFA are well developed and were discussed and agreed with the Leader and Chief Executive. In many cases they have already been implemented and with the support of the wider organisation and the external advice and support available to us, we are confident that we can plot a path to long term financial sustainability. This will be set out more fully in the Medium Term Financial Plan which will accompany the budget when it is presented to Cabinet and Council in February.

5. Risk management

- 5.1. Risk management is an integral part of good governance. The Council has a responsibility to identify and manage threats and risks to achieve its strategic objectives and enhance the value of services it provides to the community.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Failure to consider external auditor’s recommendations	Leading to further action by the auditor and possibly the MHCLG	Submit a report to full Council within one month of publication	D2
Failure to approve management’s response	The Council decides not to agree management’s response to the external auditor’s recommendations	Management response fully addresses the issues set out in the external auditor’s recommendations	D2

Likelihood	Impact:
A Very likely B Likely C Unlikely D Rare	1 Critical 2 Major 3 Moderate 4 Minor

6. Consultation

- 6.1. Management's proposed response to these recommendations has been consulted upon with the Chief Executive, Leader of the Council and the external auditor.

7. Climate change implications

- 7.1. There are no climate change implications arising directly from the contents of this report.

8. Local Government Reorganisation (LGR) implications

- 8.1. It will be important for Medway Council to have a plan to achieve long term financial sustainability, irrespective of whether Local Government Reorganisation happens or not, noting the pause announced by Government on 7 September. Having said that, when considering opportunities to transform services, it would be sensible to explore opportunities to align and even share and combine services with our neighbours in other North Kent districts.

9. Financial implications

- 9.1. The financial implications of implementing the proposed actions are not fully clear at this stage, however if additional resources are required, which cannot be met from within the Council's overall agreed budget, Cabinet and Council may be asked to agree additional funding through the normal annual budget-setting process.

10. Legal implications

- 10.1. In addition to their responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, effectiveness and efficiency in the Authority's use of resources, the external auditor has additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.
- 10.2. The auditor has concluded that it is appropriate for them to use their powers to make a written recommendation under Section 24 of the Act. Schedule 7 of

the Local Audit and Accountability Act 2014 requires the Council to take the following actions and specifies the meeting publication requirements that the Council must comply with.

- 10.3. The Council must consider the recommendations at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council. At that public meeting the Council must decide:
- whether the recommendations are to be accepted, and
 - what, if any, action to take in response to these recommendations.

Lead officer contact

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Appendices

Appendix 1: External Auditor's Statutory Recommendations

Appendix 2: CIPFA Assurance Review

Background papers

[Auditors Annual Report, Audit Findings Report and Statement of Accounts 2024/25 – Audit Committee \(February 2026\)](#)