

01 July 2025

To Cllr Gavin Larkins, Chair of the Finance and Audit Committee
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Dear Gavin

Gravesham Borough Council: Conclusion of the audit for 2023/24 – letter to those charged with governance on the application of the local authority backstop 2023/24

As you will be aware, on 5 September 2024 parliament approved the Accounts and Audit (Amendment) Regulations 2024. These Regulations set a publication date for 2023/24 financial by 28 February 2025. The new National Audit Office Code which was approved on 14 November 2024 also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Director (Corporate Services), and for reasons which I set out in more detail below, it was not possible for us to complete our audit for 2023/24 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Finance and Audit Committee.

We are required under Auditing Standards to report certain matters to the Finance and Audit Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

Outcome of our audit for 2023/24 – Disclaimer of the opinion on the financial statements

For the reasons set out below, it was not possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 28 February 2025. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. We have attached the draft wording of our Audit Report for your information.

The main reason for the application of the backstop is that we have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's financial statements for the year ended 31 March 2024 were as a whole are free from material misstatement. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. We therefore plan to issue a disclaimer of opinion on the financial statements.

As the Council's financial statements for the year ended 31 March 2024 were published on 27 March 2025. This disclaimer of opinion enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2024 as soon as reasonably practicable following the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

Chartered Accountants

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Outcome of our audit for 2023/24 – Qualification of the opinion on the financial statements in respect of the St George’s Shopping Centre

The financial statements for the year ended 31 March 2020 included a liability for the financing of the regeneration of the St George’s Shopping Centre and associated properties, which was included at an amount of £24.5 million as at 31 March 2020 and £24.1 million as at 31 March 2019. We disagreed with the Authority’s judgement to include in the liability amount only direct entries flowing through its records and we were unable to obtain sufficient appropriate audit evidence in respect of the amortised cost of the liability recognised in the financial statements. In addition, we were also unable to conclude on the reasonableness of the Authority’s accounting treatment for an embedded prepayment option. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary in respect of this matter.

During the year ended 31 March 2024, the Authority exited the arrangements in respect of this liability (£25.8 million as at 31 March 2023) and we determined that the associated adjustments could impact all the primary statements and related disclosures.

Our opinion on the current financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures and the corresponding figures, as well as the effect on:

- the current period’s in-year transactions for the arrangement;
- the current period gain/loss on derecognition in respect of the financial instrument, and the subsequent balance accounted for in the Financial Instruments Adjustment Account of £17.7 million as at 31 March 2024; and
- the current period impact on the General Fund as at 31 March 2024 in respect of the amortisation of the balance held in the Financial Instruments Adjustment Account, following the derecognition of the financial instrument.

Outcome of this year’s audit - Value for Money work and other work under the National Audit Office Code of Audit Practice

We undertook our Value for Money work and have reported the outcome in our Annual Audit Report dated February 2025. The key findings include one significant weakness in relation to financial sustainability as follows:

- The Council financial position is becoming significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures. A failure to properly develop and risk assess savings schemes with appropriate contingencies will further intensify this pressure. We recommend that councilors and senior officers of the Council must continue to recognise the severity of the Council’s medium term financial outlook and the need to take prompt, effective and far-reaching action to restore a sustainable financial position in the medium term.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above.

Independence

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 that there are no significant facts or matters that impact on our independence matters as auditors that we are required or wish to draw your attention and consider that an objective reasonable and informed third party would take the same view.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard 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. Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements covering (years). This will be tabled as a separate agenda item.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

Parris Williams

For Grant Thornton UK LLP

CC Director (Corporate Services)

Attachments:

- Draft Disclaimer of Opinion
- Appendix 2 to ISA 260 – Findings from bespoke audit work

Appendix 1

Responsibilities

The National Audit Office ('the NAO') has issued a document entitled 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 [audited body name]. We draw your attention to both of 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 and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Finance and 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 resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Finance and Audit Committee of its responsibilities. It is the responsibility of the authority 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 authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the authority's business and is risk based.

Audit Plan

We issued an indicative Audit Plan in May 2024. In our plan we identified the following issues as significant audit risks:

- Management over-ride of controls
- Valuation of Net Pensions Liability
- Valuation of Land and Buildings, Council Dwellings and Investment Properties
- Group consolidation - financial statement level risk regarding production of the group accounts including intercompany eliminations
- The Charter redevelopment project - financial statement level risk regarding significant transaction

We have not identified any other significant risks since the date we issued our audit plan.

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.

For (year) we set a materiality level of £1,100,000 for the Council, which equates to 1.4% of the 2020/21 unaudited gross operating costs for the year (excluding HRA revaluations and including interest payable). As part of our risk assessment, we considered the additional risks following the gap in audited financial statements and the 2019/20 qualification, and therefore set performance materiality at a lower level of 65% (PY: 75%) which equated to £715,000.

Due to delays in the preparation of consolidated financial statements for the prior periods, we were unable to determine a materiality level for the group for 2023/24.

Key financial reporting and audit issues identified during the audit

In response to a growing number of authorities moving from a net defined benefit liability to a net defined benefit asset position, we have discussed with management that there is an emerging need for them need to consider whether their secondary contributions will be available to the Gravesham Borough Council after they are paid into the plan. To the extent that they will not be available, Gravesham Borough Council would need to recognise a liability as the obligation arises in line with IFRIC 14. Which could have the effect of reducing a net pension asset or increasing a net pension liability.

Management engaged with their pensions actuary to establish the potential impact on their net defined benefit liability, and the impact was determined to be £308,000. Management have not adjusted for this matter in their 2023/24 financial statements, and as this matter exceeds our clearly trivial reporting threshold, we are reporting this accordingly.

We have also undertaken some bespoke audit work as agreed with the Finance and Audit Committee in the Audit Plan. Findings from this work are set out in Appendix 2 which is a separate report. It is important to note that as a result of the audit opinion being disclaimed, we are not providing any positive assurance from this work. We are however able to set out the findings from this work and this is detailed in Appendix 2.

Going Concern

As auditors, we are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern (ISA (UK) 570).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Matters in relation to the Group audit

In respect of the group engagement, we are required to report on:

- The scope of work on components
- The involvement of group auditors in significant component audits,
- Any concerns over quality of component auditors' work
- Limitations of scope on the group audit, and
- Fraud or suspected fraud

We have no matters to report in this respect.

Audit fees and non audit fees

PSAA set a scale fee for this year's audit of £154,260 and £77,130 has currently been invoiced as paid as at the date of drafting this report. We have billed 50% of the scale in line with milestones set out by PSAA in the contract. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for this audit year. Depending on the outcome of this determination, the amount billed will be adjusted via a credit note or additional invoice as appropriate.

As communicated in our indicative audit plan, we have outlined proposed additional fees to the PSAA scale fee for work not outlined in the scope of setting the scale fee. This can be summarised as follows:

	Proposed fee 2023/24 (Per indicative Audit Plan)
Gravesham Borough Council Audit	£154,260
ISA 315*	£7,530
Total audit fees (excluding VAT)	£161,790

*ISA 315 is not included within the published 2023/24 scale fees. The £7,530 is therefore a fee variation that would be subject to PSAA approval. To be clear, the £7,530 has not been billed.

Our indicative audit plan also included draft audit fees in relation to the Group and Opening Balances, which were deemed to be estimates based on estimate hours required to complete the additional procedures required.

The fees reconcile to the financial statements.

We have also undertaken the following non audit work in respect of (audit year) as well as the threats to our independence and safeguards that have been applied to mitigate these.

Audit Service	Proposed Fee	Final Fee	Threats	Safeguards
Certification of Pooling of Housing Capital Receipts return	10,000	10,000	Self-Interest (because this is a recurring fee)	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 £10,000 in comparison to the scale fee for the audit of £154,260 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.
Certification of Housing Benefits claim	47,400	55,000	Self-Interest (because this is a recurring fee)	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 £10,000 in comparison to the scale fee for the audit of £154,260 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.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Finance and Audit Committee.

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit of £161,790 and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.