



The Audit Findings for Gravesham Borough Council

Year ended 31 March 2020

December 2023



Contents



**Your key Grant Thornton
team members are:**

Paul Dossett

Key Audit Partner

T: 020 7728 3180

E: Paul.Dossett@uk.gt.com

Tess Barker-Phillips

Senior Manager

T: 0121 232 5428

E: : Tess.S.Barker-Phillips@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Gravesham Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>The majority of our audit work was undertaken remotely during July-September 2020. The completion of the audit was subsequently delayed, mainly due to challenges raised relating to the accounting for HRA revaluations, and in particular the accounting treatment for St George's Shopping Centre and the arrangement with Aviva which commenced in 2018/19. Updated accounts were provided in October 2023 and our audit work has been ongoing since this date.</p> <p>Our findings are summarised on pages 7 to 28. We have identified several adjustments to the financial statements that have resulted in a £5.9m adjustment to the Council's Comprehensive Income and Expenditure Statement, and a cumulative reduction of £1.4m to the council's General Fund. Audit adjustments are detailed in Appendix B.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Although significant progress has been made in agreeing adjustments related to the accounting for HRA valuations and St George's, there are two key areas which we have been unable to fully resolve. Further details of these remaining issues are set out on pages 12 and 14 to 16. As a result, we anticipate that our audit opinion will need to be modified. The exact nature of the modification will be determined following completion of our internal consultation processes.</p> <p>Our audit opinion will also include an Emphasis of Matter paragraph, highlighting material valuation uncertainties around the valuation of land and buildings, investment properties, property fund investments and pension fund property investments as at 31 March 2020, which you have reflected in the updated version of your accounts. This was due to the Covid-19 pandemic impacting valuations at the balance sheet date, in common with other local authorities.</p> <p>As at the date of writing, there are no other matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report.</p> <p>Our work to review the revised other information will be completed on receipt of the updated version of the accounts. Once this is complete, we will conclude whether, other than the matters referred to above, the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Gravesham Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the Council .</p> <p>The Council was significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.</p> <p>The impact on the core finance team was more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business.</p> <p>Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and for audited financial statements to 30 November 2020.</p> <p>Management were able to provide us with the draft financial statements for audit on 7 July 2020 well in advance of the deadline.</p> <p>The audit was subsequently delayed due to other matters which are covered in more detail later in this report.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 9 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 8.</p> <p>Throughout March and April 2020 we held meetings with your key finance staff to discuss the impact of Covid-19 on the Council's financial statements. We also discussed the financial implications in terms of Investment valuations and going concern. This assisted you in preparing accounts in compliance with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20.</p> <p>The finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel meant both Council and audit staff had to work remotely throughout the main audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) were used where necessary. Inevitably in these circumstances resolving audit queries takes longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Gravesham Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Gravesham Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the council's arrangements in relation to St George's shopping centre.</p> <p>We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the pandemic environment. We did not identify any new VfM risks in relation to Covid-19.</p> <p>Following the delays to the financial statements audit we also identified a new risk relating to the St George's arrangements and additional VfM work was carried out in 2023.</p> <p>We therefore anticipate issuing a qualified 'adverse' Value for Money Conclusion.</p> <p>Our findings are summarised on pages 28 to 39.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have not received any questions or objections in relation to the Council's financial statements.</p> <p>We have completed the majority of our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during the unprecedented times in 2020, as well as the ongoing work on the complex areas relating to St George's.

Headlines (continued)

Financial statements continued

Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing a modified audit opinion.

The outstanding matters include the following items:

- Receipt and review of the final set of financial statements including agreement of all additional amendments made since the version received in October 2023
- Final review to ensure all amendments to disclosures since the original draft accounts have been agreed
- Completion of our audit of the Cash Flow Statement on receipt of amended accounts
- Completion of our procedures on the revised other information on receipt of amended accounts
- Manager and engagement lead quality review of audit files and resolution of any arising queries
- Finalisation of work in respect of subsequent events
- Receipt of management representation letter (included as a separate agenda item)
- Receipt and review of the final approved annual governance statements

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management ahead of presentation to the Finance and Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 9 April 2020, to reflect our response to the Covid-19 pandemic and its impact on the Council's financial statements and the Council's value for money arrangements.

Conclusion

Our work is nearing completion and, subject to outstanding queries being resolved as set out on page 6, we anticipate issuing a modified audit opinion following the Finance and Audit Committee meeting on 21 December 2023. The exact nature of the modification will be determined following completion of our internal consultation processes.

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.

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,400,000	Based on 1.90% of your gross expenditure for the year
Performance materiality	1,050,000	Using 75% of materiality to reflect our assessment of risk
Trivial matters	70,000	5% of materiality

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations, pension fund liability valuations and recovery of receivable balances; and
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

The Council's valuers prepared their valuations as at 31 March 2020. In their reports, they confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. Their valuations for property, plant and equipment and investment properties are reported on the basis of 'material valuation uncertainty'. The Council reflected this uncertainty in Note 14.6 to the financial statements, and Note 14.9 in the revised accounts.

The Council has also made disclosures in Note 14.28 (Financial Instruments), and in Note 14.23 (Pensions) in the revised accounts, in relation to the impact of the Covid-19 pandemic, which created uncertainty surrounding investment valuations. As such, valuers and Property Fund Managers considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. This created further material valuation uncertainties in the Council's own property fund investments, and in the pension fund property investments which impact on the net defined benefit liability.

We will refer to these material valuation uncertainties in our audit report. These references do not constitute a qualification of the audit opinion.

To date, no further material issues have been identified which are required to be reported to those charged with governance, subject to the satisfactory resolution of matters set out on page 6. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
<p>Fraudulent revenue and expenditure recognition</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>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• There is little incentive to manipulate revenue recognition.• Opportunities to manipulate revenue recognition are very limited.• The culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Gravesham Borough Council.</p> <p>We have however:</p> <ul style="list-style-type: none">• evaluated the Council's accounting policy for recognition of revenues for appropriateness;• performed substantive testing on material revenue streams; and• reviewed unusual significant transactions. <p>Our testing of grant income identified £1.8m recognised as capital grant income in 2019/20 relating to St George's. The revised accounting treatment for St George's confirmed that this forms part of the borrowing from Aviva rather than being revenue. Our work on the St George's transaction is set out in more detail on pages 14 to 16. Audit adjustments are detailed in Appendix B.</p> <p>Our audit work has not identified any other issues in respect of improper revenue recognition.</p>

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.</p>	<p>In response to this risk we have:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals;• analysed the journals listing and determined the criteria for selecting high risk unusual journals;• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;• tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration;• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Following our audit work management has made some improvements to disclosures relating to critical judgements and estimation uncertainty. Audit adjustments are detailed in Appendix B.</p> <p>As part of our audit work we identified errors in the accounting treatment for the St George's transaction. The revised accounting treatment has required additional judgements and estimates to be made by management. Our work on the St George's transaction is set out in more detail on pages 14 to 16.</p> <p>No other issues have been identified which are required to be reported to those charged with governance.</p>

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings

The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.

The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

Update to the wording in the audit plan: for clarity, this includes council dwellings, land and buildings and investment property.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuations were carried out;
- engaged our own valuer to assess the appropriateness of the valuation approach for St George's shopping centre and other similarly valued operational assets, and the appropriateness of the assumptions that underpin the valuation;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;
- evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.

Outcomes of audit work

We identified several issues during our testing including:

- errors in valuation for specific assets – including the inappropriate inclusion of finance costs and demolition fees in certain DRC valuations, and errors in the valuation of garages
- challenge over the index used to revalue council dwellings – management determined that better information was available at the time of audit than at the time the accounts were prepared so revised the index used (from South East to Gravesham) which resulted in an adjustment to the value of council dwellings
- several disclosure errors and omissions
- some difficulties in obtaining supporting evidence for source data
- fundamental errors in the accounting treatment for council dwellings, with all revaluation gains/losses being taken through the CIES net cost of services and no revaluation reserve being maintained, which is not compliant with the requirements of the CIPFA Code

Control recommendations are detailed in Appendix A, while audit adjustments are detailed in Appendix B.

(continued)

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings	<p><i>(continued from previous page)</i></p> <p>Material valuation uncertainty</p> <p>The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in the financial statements and updated the wording in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion.</p> <p>HRA revaluation reserve</p> <p>The most significant adjustment relates to the HRA revaluation reserve. Following our challenge, we identified that the valuation accounting treated the HRA stock as a single asset, rather than performing an asset-by-asset analysis to identify the appropriate accounting treatment for revaluation gains and losses.</p> <p>We requested that management perform analysis to identify whether there was a material risk, which reflected gains/losses in valuation on individual council dwellings dating back to 2007/08 (the first year the revaluation reserve was introduced). This analysis by the council identified an adjustment of £16.1m (for all years cumulatively to 2019/20) and following our audit work this was revised to £15.9m. This has been transacted in-year as an adjustment between the Capital Adjustment Account and the Revaluation Reserve.</p> <p>According to the council's workings, the Revaluation Reserve at 31/3/18 would be £10.1m and at 31/3/19 would be £14.2m. Therefore the impact would be expected to be material. The appropriate treatment in line with the CIPFA Code would be to recognise a prior period adjustment, including restatement of opening balances as at 1 April 2018.</p> <p>We have requested that the council account for a full restatement in line with the CIPFA Code but management have declined to do this. We understand that this is due a lack of capacity for the council to complete the additional work required and a desire to conclude the 2019/20 audit.</p> <p>We are unable to assess the full impact of this error but expect it to be material. This would be expected to impact the CIES, MIRS, Cashflow Statement, the PPE note, Unusable Reserves note and other related notes. There is no impact on the face of the Balance Sheet. We therefore expect that our audit opinion will be modified in this respect.</p> <p>St George's</p> <p>We also challenged the valuation of the St George's asset – please see p16 for full details.</p> <p>No other issues have been identified which are required to be reported to those charged with governance.</p>

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimates in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuations of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.

As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.

This material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.

The Council has included disclosures in Note 14.23 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding valuation of pension fund property investments. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

We identified one control deficiency related to a lack of review/challenge by management over the experience item included in the actuary's report. Control recommendations are reported in Appendix A.

No other issues have been identified which are required to be reported to those charged with governance.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Auditor commentary
<p>Accounting for assets and liabilities in respect of St George's shopping centre</p> <p>Gravesham has the freehold interest on St George shopping centre, which was held as an investment asset by the Council at 31 March 2018, valued at £3.5m. As part of its regeneration plans, Gravesham entered into a complex lease and lease-back agreement with investor Aviva. On 11 June 2018, the Council leased St George's to Aviva for 150 years with a peppercorn rent of £1 per year, and a break clause after 50 years. Simultaneously, Aviva leased it back to the Council for 50 years, with annual rent of £1.15m due from the Council to Aviva. Estimated payments from the Council to Aviva totalled £131 million before discounting for net present value over the 50 year lease.</p> <p>In accounting for this in 2018/19, the Council derecognised St George's Shopping Centre as an Investment Property asset and subsequently recognised it as an acquisition of an operational asset. In accounting for the 'acquisition', the Council valued the asset at £94 million (the value the Council calculated the net present value of the finance lease to be, see below), and then immediately impaired it by circa £84m to arrive at an asset value, as an operational asset, of £9.84 million.</p> <p>Regarding the lease payments, with an estimated 3% inflation per year (at the time), then over 50 years of lease payments the Council would pay Aviva £131 million. The Council adjusted this total for the value of lease incentives and discounted it using the EU state aid rate of 0.86% to arrive at a Net Present Value of £94m. Gravesham recognised the lease obligation as lessee of a Finance lease.</p>	<p>The transactions which occurred in the prior year have an ongoing impact on this year's opening balance for the finance lease asset value (within Property, Plant and Equipment) and the finance lease liability value, as well as the value of the asset and liability at the balance sheet date at 31 March 2020.</p> <p>During the 2019/20 audit the audit team raised various challenges around the accounting for these transactions. The key challenge was whether there was, in substance, a disposal of the asset. If the lease and lease-back transactions are linked, and control of the asset does not pass to Aviva, this indicates that, in substance, there was not a disposal and reacquisition of the asset and the finance lease is, instead, a financial instrument for financing the asset.</p> <p>Following our challenges, management obtained accounting advice from Link and determined that the arrangement was in substance a financing arrangement rather than a lease. This approach significantly changes the accounting treatment and means that a prior period adjustment is necessary to correct the 2018/19 entries. We raised further challenges including the non-inclusion of inflation estimates in calculating the effective interest rate (EIR), and the assessments relating to whether an embedded derivative (prepayment option) was required to be separated from the host contract.</p> <p>Management later obtained accounting advice from Worth Technical Accounting Solutions. We raised some further challenges particularly around the value of the amount to be recognised as principal (which does not impact the cashflows of the arrangement but impacts the accounting treatment including the amount to be recognised as interest) and have continued to engage with officers to discuss the proposals.</p> <p>Accounting for the liability</p> <p>Following our challenges, management have proposed revised accounting treatment. This involves the recognition of a financial liability which management have assessed as being £23.5m which reflects cash received by the council.</p> <p>We were made aware of correspondence from Reef which indicated additional payments made by Aviva via Reef. This includes £14.5m paid to the previous leaseholder of St George's, along with a range of other payments. Management have determined that these amounts should not be recognised as part of the liability in the accounts, because in their view the payments made were outwith the Council's accounting boundary as they did not make any payments or receive any income in their books and records which reflect these transactions.</p> <p>Our view is that we have been unable to obtain sufficient evidence to confirm whether the council's accounting judgement (eg to exclude these amounts from the council's accounts) is appropriate. If a different accounting treatment were taken, the impact could be material (up to £28.2m). The nature of the impact would vary for different elements of the payments but could potentially impact all four primary statements to varying degrees (some materially). However, we are unable to confirm whether there is an error or errors, or the value of such error(s).</p> <p><i>(continued)</i></p>

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.


Issue	Auditor commentary
Accounting for assets and liabilities in respect of St George's shopping centre	<p><i>(continued from previous page)</i></p> <p>As a result, we anticipate that our audit opinion will need to be modified. The exact nature of the modification will be determined following completion of our internal consultation processes.</p> <p>We also reviewed the council's EIR and amortised cost calculations. There is judgement involved in selecting appropriate estimates of future RPI rates to use when estimating the EIR, and the council determined that it was appropriate to use ONS data to 2022, the Office for Budget Responsibilities forecast to 2028 and thereafter the Bank of England target of 2% for all future years. The council deemed it reasonable to use a single set of calculations for both years given the years had already passed, and we understand they intended to update this for each subsequent balance sheet date.</p> <p>We would instead have expected the rates to reflect market expectations as at inception and as at each subsequent balance sheet date. We obtained relevant rates from our in-house actuary, which were different to those used in the council's estimate. However, given the uncertainties around the value of the principal amount as referred to previously, we cannot assess whether the principal amount is correct and therefore whether the EIR and related entries are accurate. We have therefore not performed any additional testing to quantify the impact of the issue identified regarding RPI rates as this would not change our overall conclusion, which is to qualify the accounts.</p> <p>Embedded derivative</p> <p>The arrangement with Aviva includes a prepayment option. Under IFRS 9, the council is required to assess whether this is 'closely related' to the host contract – if not, it should be accounted for separately at fair value.</p> <p>Management provided a comparison of the discounted cashflows both before and after the prepayment is made, comparing the difference to the total cashflows of the arrangement. Based on this management's assessment is that the derivative is closely related and does not require separating. Management have also considered IFRS 9 B4.3.8 (f), however in our view this is not relevant as the host contract is not a lease in accounting terms.</p> <p>We have considered the assessment of discounted cashflows before and after the prepayment. Our view is that the current analysis does not support an assessment that the derivative is closely related. The change in discounted cashflows should be compared to the prepayment amount, not the total cash flows. The differences are greater than 5% and therefore our view would be that it is not closely related.</p> <p>However, as previously noted, we have been unable to obtain sufficient evidence to verify the calculation of the EIR and this therefore also impacts on the assessment around the derivative. Therefore we are unable to verify whether the 'closely related' test is met or not. As we are also unable to assess if the impact would be material, we also anticipate that this will form part of the modification of our audit opinion.</p> <p><i>(continued)</i></p>

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Auditor commentary
Accounting for assets and liabilities in respect of St George's shopping centre	<p data-bbox="673 325 1004 354"><i>(continued from previous page)</i></p> <p data-bbox="673 368 957 396">Accounting for the asset</p> <p data-bbox="673 411 1982 525">We are satisfied with management's assessment that it was appropriate to transfer the asset from investment asset to operational asset, as the purpose for holding the asset has changed. Previously the asset was held for earning of rental income and now it is held for the purposes of regeneration. Therefore, under the CIPFA Code it cannot be classified as an investment property.</p> <p data-bbox="673 539 1982 704">As the asset is now held as an operational asset, annual revaluations are not required unless there is evidence to suggest the value of the asset may have changed materially from the prior year. The valuer originally declined to re-value the asset as at 31 March 2020 on the basis that as an operational asset 5 years can pass between valuations and the valuer did not believe the value of the asset has materially changed since the prior year, therefore the valuation was held at the previous net book value. We challenged this as part of the original audit, and the valuation was revised from £9.6m to £5.4m.</p> <p data-bbox="673 718 1982 861">Following the change in accounting treatment for the Aviva transaction the council decided to obtain further revised valuations from a new valuer as at 31 March 2019 and 31 March 2020. Based on this, revised valuations of £40k as at 31/3/2019 and £35k as at 31/3/20 were reflected in the original set of revised accounts. The reason for the significant reduction in value was due to the revised valuations incorporating the payments due to Aviva, to reduce the overall net income anticipated and therefore the valuation of the asset.</p> <p data-bbox="673 875 1982 1068">The valuation reports also included an estimate of the leasehold interest as at 31/3/20 being an effective liability of £6.4m. We challenged the council about why this was not recognised in the accounts. Management confirmed that their judgement was that to separately recognise a negative amount on the council's balance sheet would in effect be a double counting given the liability is already recognised separately. We were satisfied that this judgement appeared to be logical - although the accounting for the Aviva arrangement is not that of a lease, it would appear to be inextricably linked to the asset. However, by the same logic, our view would be that including the Aviva payments in the valuation of the asset at all would also appear to be double counting as the liability is recognised separately.</p> <p data-bbox="673 1082 1982 1139">Following our challenge, management agreed to revert to the previously agreed valuations (£9.8m as at 31/3/19 and £5.4m as at 31/3/20) to avoid this apparent double counting.</p> <p data-bbox="673 1168 828 1196">Amendments</p> <p data-bbox="673 1210 1384 1239">The amendments made by management are set out in Appendix B.</p> <p data-bbox="673 1253 1982 1356">The changes noted above also resulted in a significant prior period adjustment to correct the 2018/19 entries. Management have also included a disclosure to meet the requirements of the CIPFA Code and IAS 8 to disclose the nature and amount of the restatements. We raised some improvement points in terms of the completeness of disclosures in particular with regard to changes within disclosures notes and management agreed to make further enhancements.</p>


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £326.24m	<p>The Council owns 5,685 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council has engaged its internal valuer to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council Housing was £326.24m, a net increase of £6.03m from 2018/19 (£320.21m).</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 14.6.</p>	<ul style="list-style-type: none"> The Council's internal valuer valued the entire housing stock physically on 1 April 2015 using the beacon methodology. For 2019/20 the valuer reviewed market changes from 1 April 2019 to 31 March 2020 to update the value of the HRA stock held by the Council during the financial period current terms. Market reviews have been provided to the Council each financial year since the last full valuation. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council in relation to council dwellings. There have been no significant changes to the valuation method this year. The main change was that the valuation in the draft accounts used an index for the South East, whereas the prior year used a Gravesham index. This was due to the valuer's assessment that at the time of the valuation, the Gravesham index was distorted and the South East index therefore more reliable. By the time of audit in October 2020, the indices had changed and following our audit challenge management determined that it would be appropriate to revise the valuation to revert to Gravesham indices. We were satisfied based on our review that this change in index appeared to be reasonable, and this was supported by our auditor's expert valuer Montagu Evans. This resulted in an amendment to the valuation of dwellings – see Appendix B. We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report. In light of the amended valuation we have updated our sample testing of beacon properties. We noted a level of estimation uncertainty, due to limited sales activity. Management have agreed to enhance the disclosures in the accounts to reflect this Disclosure of the estimate in the financial statements is considered adequate, although we raised some points for improvement – see Appendix B. We will refer to the uncertainties disclosed in Note 14.6 in our audit report. Although we are satisfied the revised estimate is reasonable, we identified errors in the accounting for HRA valuations as reported on page 12. We anticipate that our opinion will need to be modified in respect of this matter. 	 Green based on revised estimate





Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £51.57m	<p>Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 92% of total assets were revalued during 2019/20.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 14.6.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £2.83m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.</p>	<ul style="list-style-type: none"> We have no significant concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. However our work did identify a number of issues which have resulted in amendments to the accounts and does indicate potential concerns about the approach to some valuations. There have been no changes to the valuation method this year. We considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We considered the completeness and accuracy of the underlying information used to determine the estimate and have not noted any non-trivial issues. We have engaged our own valuer expert, Montagu Evans LLP, to provide commentary on the valuation methodology and approach, resulting assumptions adopted and any other relevant points. This includes the appropriateness of the valuation of the St George's shopping centre and other operational assets valued using rental yield and potentially impacted by the Covid pandemic and economic crisis. Our audit work identified a number of issues which resulted in amendments to the accounts, as detailed on pages 11 to 12. Audit adjustments are detailed in Appendix B. We raised a number of challenges around the valuation of St George's, as detailed on pages 14 to 16. Management have agreed to amend the valuation in the final version of the accounts. Disclosure of the estimate in the financial statements is considered adequate, although we raised some points for improvement – see Appendix B. We will refer to the uncertainties disclosed in Note 14.6 in our audit report. 	 <p>Green following the amendments to the accounts</p>

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment property - £39.48m	<p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of the Council's investment property was £39.48m, a net increase of £0.79m from 2018/19 (£38.69m).</p> <p>Management and their valuer have taken into account available market data at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's investment properties as at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 14.9 following audit challenge.</p>	<ul style="list-style-type: none"> • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council in relation to investment property. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. • We have considered the completeness and accuracy of the underlying information used to determine the estimate and have not noted any non-trivial issues. • We have engaged our own valuer expert, Montagu Evans LLP, to provide commentary on the valuation methodology and approach, resulting assumptions adopted and any other relevant points with no significant issues noted • Disclosure of the estimate in the financial statements is considered adequate, although we raised some points for improvement – see Appendix B. We will refer to the uncertainties disclosed in Note 14.9 in our audit report. 	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £62.67m	<p>The Council's net pension liability at 31 March 2020 is £62.67m (PY £59.56m) . The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £15.07m net actuarial gain during 2019/20.</p> <p>The pension fund's valuers have disclosed a material valuation uncertainty relating to the valuations of directly held property and pooled property funds, which in turn impacts the valuation of the council's net defined benefit liability. The Council has updated the accounts to include disclosures on this issue in Note 14.23.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as auditor's expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Gravesham Borough Council Pension Fund valuation <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.35%</td><td>2.35%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>1.90%</td><td>1.85% - 1.95%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.00%</td><td>Long term assumption of 1% above CPI</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.2 21.8</td><td>22.8 – 24.7 21.4 – 23.3</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>25.2 23.7</td><td>25.2 – 26.2 23.7 – 24.7</td><td>●</td></tr> </table> <ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We have confirmed that the Council's share of the pension scheme assets is in line with expectations. Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 14.23 in our audit report. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%	●	Pension increase rate	1.90%	1.85% - 1.95%	●	Salary growth	3.00%	Long term assumption of 1% above CPI	●	Life expectancy – Males currently aged 45 / 65	23.2 21.8	22.8 – 24.7 21.4 – 23.3	●	Life expectancy – Females currently aged 45 / 65	25.2 23.7	25.2 – 26.2 23.7 – 24.7	●	<div>  Green </div>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.35%	2.35%	●																								
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Assessment

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- We consider management's process is appropriate and key assumptions are neither optimistic or cautious



Significant findings – key estimates and judgements

Accounting area	Summary of management's response	Auditor commentary	Assessment
Pension - restitution for McCloud In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protection given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	Gravesham Borough Council participate in the Kent County Council Pension Fund. The Pension fund had an initial discussion with Barnett Waddingham, Fund actuary, on the potential impact and their advice is that they expect the impact to be on administration rather than a material impact on liabilities at whole fund level. In addition, in production of the IAS19 statement Barnett Waddingham made an allowance for McCloud as a past service cost (as well as the 2019 valuation).	<ul style="list-style-type: none"> The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July 2020. For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. The council's actuary allowed for the estimated impact of McCloud in 2019-20 (£1,127m) so any further revision is unlikely to be material. 	 Green
Pension - other experience item On the Pension Notes and in the IAS 19 report, there is a £2.552m increase described as 'Other experience'. This has increased significantly compared to prior year.	Gravesham Borough Council participate in the Kent County Council Pension Fund. The Pension fund advised that the "other membership experience" would normally be expected to be small between valuations. The actuary Barnett Waddingham performed an analysis of experience since the last triennial valuation as part of the triennial funding valuation process. The actuary tolerance for the impact of the roll forward approach is generally 5% of the total liabilities or assets. For Gravesham Borough Council, it equates to 1.5% of the total liabilities, which is largely a result of the difference in the roll forward versus the full valuation	<ul style="list-style-type: none"> Experience items can arise in any financial year but are expected to be greatest in the first set of financial statements produced following a triennial review. This is because the underlying source data is updated during the triennial review and the process will pick up three years of actual vs expected member movements. For English and Welsh LGPS schemes, experience items are likely to be greater in value in 2019/20 than in 2018/19 because it is the first financial year since the latest triennial review was performed. We obtained a breakdown of the experience item into the key factors and had a 3-way phone call discussion with the Kent County Council Pension Fund management and the actuary, challenging whether the factors identified by the actuary are appropriate to be classed as experience items. We were satisfied that all of the items appeared to be classified appropriately as experience items. We were satisfied that the actuary had confirmed compliance with the Code when making approximate assessments in prior periods and that the actuary's explanation that the experience item is relatively small is in line with our expectations because of the nature of the estimation process. 	 Green





Assessment

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-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £1.52m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management rely on the expert opinion of Analyse Local to calculate the level of provision required. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has increased by £0.30m in 2019/20.	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate. There has been a change in the calculation method this year, due to the introduction of the use of an expert. We have considered the new approach, and the calculation performed by the expert, and have not identified any issues. Given the time elapsed we are considering whether subsequent information indicates the estimate is still reasonable. Our work in this area is still in progress. 	 Green <i>(subject to completion)</i>
Other accruals and estimates	<p>The Council continues to apply estimates and judgements in a number of areas, such as:</p> <ul style="list-style-type: none"> accruals of income and expenditure; recognition of school assets; and the preparation of group accounts. 	<ul style="list-style-type: none"> The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. Disclosure of the estimates in the financial statements is considered adequate. As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. We have found no material misstatements in the financial statements relating to these balances. 	 Green





Assessment

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-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
St George's – Aviva loan £24.5m	<p>Following the revised accounting for St George's, management have accounted for a loan from Aviva at amortised cost, rather than as a lease.</p> <p>Management's judgement is that the original principal amount of the loan was £23.5m reflecting the cash received by the council.</p> <p>Management were made aware by Reef of additional payments made by Aviva via Reef. This includes £14.5m paid to the previous leaseholder of St George's, along with a range of other payments. Management have determined that these amounts should not be recognised as part of the liability in the accounts.</p> <p>The effective interest rate (EIR) was estimated based on assumptions relating to future RPI, and this was used to calculate the interest payable in each year and the outstanding balance of the liability at year end.</p>	<p>Full details of our work in this area are on p14-15 of this report.</p> <ul style="list-style-type: none"> We agree that in substance the transaction is a financing arrangement and not a lease We are satisfied that the £23.5m reflects the cash received by the Council in 2018/19. However, our view is that we have been unable to obtain sufficient evidence to confirm whether the council's accounting judgement (eg to exclude the other amounts from the council's accounts) is appropriate. If a different accounting treatment were taken, the impact could be material (up to £28.2m). The nature of the impact would vary for different elements of the payments but could potentially impact all four primary statements to varying degrees (some materially). However, we are unable to confirm whether there is an error or errors, or the value of such error(s). As a result, we anticipate that our audit opinion will need to be modified. The exact nature of the modification will be determined following completion of our internal consultation processes. We were not satisfied with the RPI rates used by the council, but due to the impact of the uncertainty around the principal amount as noted above, we have not quantified the impact of this as it would not change our overall conclusion (which is to qualify the accounts) We have been unable to conclude on the accounting treatment of the embedded prepayment as this is also impacted by the uncertainties noted above We have raised a challenge with management about the adequacy of disclosures of critical judgements relating to the accounting treatment for this transaction 	 Red

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Minimum Revenue Provision - £5.4m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The Council's MRP policy is set out in its Treasury Management Strategy for 2019/20:</p> <ul style="list-style-type: none"> • 'Regulatory method' for capital expenditure before 1 April 2008 or Supported Capital Expenditure after that date • Asset life (equal instalment method) for unsupported borrowings after 1 April 2008 <p>The year end MRP charge disclosed per the revised accounts was £5.4m, a net decrease of £0.9m from 2018/19. This is inclusive of a voluntary payment by the HRA of £4.7m (£4.1m for 2018/19).</p>	<ul style="list-style-type: none"> • Following the change in accounting for St George's, the council has revisited its MRP calculations and its Capital Financing Requirement (CFR) • Based on the work performed, we were satisfied that MRP had been calculated in line with the statutory guidance. • The Council's policy on MRP complies with statutory guidance. • We did not identify any changes to the Council's policy on MRP • The statutory guidance confirms that the duty to make MRP does not extend to borrowing for housing assets. Therefore, the voluntary payment by the HRA would appear not to meet the definition of MRP and we would expect it to be separately presented in the accounts • The majority of the decrease in MRP relates to the voluntary HRA payment, which does not fall under the statutory guidance. The remaining decrease appears to be linked to a drop in CFR which appears reasonable. • When re-calculating the CFR from the Balance Sheet, our calculated CFR was £197k lower than that disclosed in the accounts and we have not yet reconciled this difference. The Council has agreed to review this in future years to ensure that the CFR is correct, but any impact on MRP would be expected to be minimal. <p>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation</p>	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

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).

Going concern material uncertainty disclosures

2020 and the years following were challenging due to the Covid-19 pandemic. The impact of this was administration of grants to businesses and the closure of car parks, with additional challenges of reopening services under new government guidelines, staff absences due to illness, and the need to free up capacity of teams in addition to normal responsibilities. Management undertook an analysis of the potential financial implications of Covid-19 together with additional funding being provided. At the time of the original audit, we noted that it may take a couple of years before the Council can fund its gross service expenditure without the use of its reserves and that the Council may therefore require further use of its financial reserves to pay its expenses in future years.

At the time of the original audit the audit team reviewed management's assessment of going concern and considered factors including the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. We are required to ensure the going concern assessment covers the period for at least 12 months after the anticipated date of signing the accounts. Our work to revisit the Council's going concern assessment in 2023 therefore included consideration of updated cash flow forecasts and the latest medium term financial plan.

It is clear from our review that cash balances are reducing over time and there are longer term risks to financial sustainability for the Council, however we are satisfied that there is no indication of material uncertainties for the period of our going concern assessment, particularly considering the public sector assumption that accounts should always be prepared on a going concern basis unless the services will be transferred out of the public sector, which is not anticipated.

We anticipate that our audit opinion in respect of going concern will be unmodified.

Further details of our work are set out overleaf.

Significant findings – going concern

Going concern commentary

Auditor commentary

Management's assessment process

- Cash flow periods
- Judgements and assumptions taken

Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting which states that “*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”.

Management have also considered the following factors:

- The Medium Term Financial Plan (MTFP) that includes projections through to 2032/33
- The Council's cash flow projections through to 2032/33
- The current budget book for 2023/24

Management has recognised the exceptional budgetary pressures facing the council in the current climate and has taken steps to reflect this in the MTFP and Medium Term Financial Strategy. Nonetheless, the accounts are prepared on the assumption that the Council will continue to operate for the foreseeable future and there are no material uncertainties disclosed.

Work performed

We have reviewed the Council's cash flow forecasts, future financial plans and the level of reserves, focusing on the period up to March 2025. We discussed key inputs with management and considered key inputs and assumptions against our wider knowledge gained through the audit process. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

The MTFP projects budget shortfalls of £1.1m in 2023/24 and £2.7m in 2024/25 (the period of our going concern assessment), as well as a net contribution from reserves in each year. However, the current forecasts indicate that these amounts could be met from reserves during the 12 months from our anticipated date of signing. The current MTFP does project a risk of balances falling into a negative position in 2025/26, but this is beyond the 12 month period of our going concern assessment. While these clearly pose a risk to longer term financial sustainability, and despite the new challenges the Council are currently facing and may continue to face in the foreseeable future, ultimately we are satisfied that there is no apparent going concern risk identified in terms of the 12 months from the date of signing our opinion. Whilst not relevant to 2019/20- we note that Practice Note 10 of the Public Audit Forum which applies from 2020/21 onwards makes an assumption that all public bodies are going concerns.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Finance and Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Our audit work identified that the declaration from one member was initially not disclosed in the draft version of the financial statements. The Council has amended the draft accounts accordingly.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, and is included as a separate agenda item.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation. One request remained outstanding and we have used alternative procedures to confirm the value for those investment funds to the year-end valuation reports.
Disclosures	Amendments made are included in Appendix B.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided, although some of our work is still ongoing. We would like to thank the finance team for their approach to the 2019-20 audit.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>As the accounts have been significantly updated, our other information procedures also require updating and this will be completed on receipt of the final version of the Statement of Accounts. The issues reported earlier in this report that are expected to result in modification of our opinion will also impact on the other information. Therefore we anticipate that we will issue a modified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have requested that management update the Annual Governance Statement in the light of the new knowledge about the St George's transaction. Management have confirmed they intend to make this update via an addendum to the Annual Governance Statement and we are satisfied with this.</p> <p>Therefore we will have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Given the time elapsed, these procedures are no longer required by the NAO for the 2019/20 accounts.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Gravesham Borough Council in the audit report.</p>

Value for Money

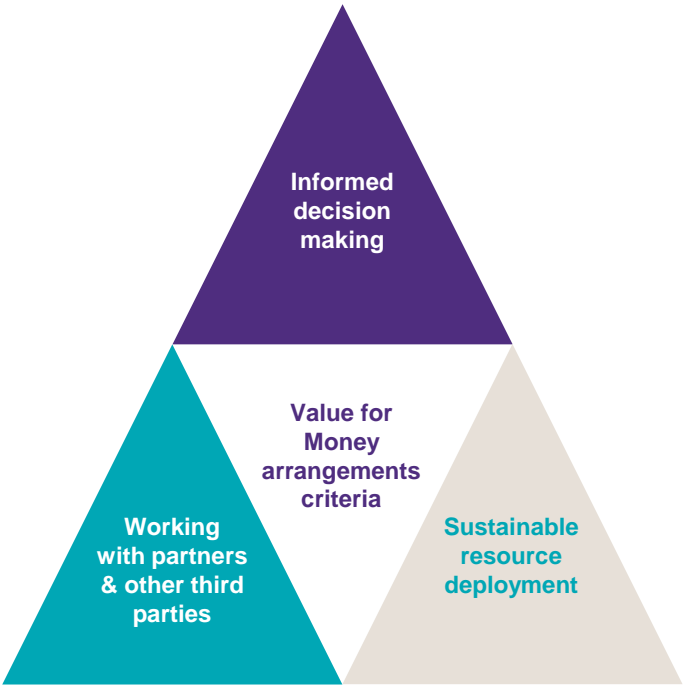
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan issued in March 2020.

In the light of the amendments to the accounting for the St George's transaction we identified a new significant risk relating to the governance surrounding the transaction. We carried out additional work in 2023 to address this and this was reported to the November meeting of the Finance and Audit Committee.

We have continued our review of relevant documents up to the date of giving our report and have not identified any further significant risks where we need to perform further work.

We did not identify any new VfM risks in relation to Covid-19. However, we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21
- Analysis of Coronavirus risk and resilience indicators relative to other comparable local authorities
- Treasury Management Strategy and Capital Strategy 2019/20
- Treasury Management Strategy and Capital Strategy 2020/21
- Property Acquisition Strategy
- Officer assessment of Greenwich Peninsular Development Investment Project
- Officer assessment of the Charter Regeneration Project
- A detailed review of the governance surrounding the St George's transaction

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 30 to 39.

Overall conclusion

Because of the significance of the matters we identified in respect of the governance surrounding the St George's transaction, we are not satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'adverse' conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings - Medium term financial viability

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p>Medium term financial viability</p> <p><i>As reported in the audit plan in 2020:</i></p> <p>Over the last decade you have experienced significant and sustained cuts to your funding whilst demand on services has risen. By the end of 2019/20 you will have experienced a cash reduction in government funding levels of some £5m (65%) since 2010/11, (excluding the funding derived from the New Homes Bonus Scheme).</p> <p>You have met the financial challenges with robust arrangements and sound financial control. You ended 2018/19 in a favourable position, enabling budgets totalling £185k to be approved for carry forward into 2019/20. At the end of Quarter 3 in the current year, there is projected underspend for the year of £1.066m.</p> <p>We will review your arrangements for setting the Medium Term Financial Plan and examine underlying assumptions and dependencies for robustness.</p>	<p>Note that the bulk of our work to address this risk was carried out during 2020, as our conclusion reflects arrangements during 2019/20 rather than those in later years. The revised impact of the St George’s transaction, which was not known at that time, is detailed as a separate significant risk.</p> <p>Outturn for 2019-20</p> <p>Despite the challenging funding settlement for local authorities nationally, you continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets, delivering a provisional outturn position for 2019/20 of an underspend of £1,194,250. The revenue underspend was driven primarily by lower than forecast community costs as a result of some slippage in project completion and the net effect of income received from St George’s Shopping Centre. This is a consistent theme with the outturn against forecast observed in previous years. In the pandemic climate, management had plans to reinvest the in-year underspend during 2020/21 to in part offset the financial challenges faced arising from the Covid-19 pandemic. However, it will be critical that the Council develops mechanisms to more accurately forecast capital expenditure, and the associated revenue costs and income. This will enable available resources to be identified where possible for investment in service redesign programmes and address the ongoing pressures beyond the current crisis in the medium term, whilst also ensuring timely delivery of capital projects to support better outcomes for residents in accordance with the Council’s strategic priorities.</p> <p>You also reported a net total positive variance of £462k against the original budget on the Housing Revenue Account (HRA) for the year, which has enabled you to make a contribution of £146k to the HRA General Reserve, instead of a planned contribution of £337k which was originally needed from the HRA General Reserve to balance the budget. A further £3.173m was being taken from the HRA General Reserve to support the HRA capital programme. This is a healthy outturn position and a lack of significant year end variances to budget demonstrates that you have applied appropriate budget management during 2019/20.</p> <p>The impact of Covid-19 on the revenue outturn for 2019/20 was minimal as the pandemic arose within the final few weeks of the period. However as explored below, the impact on the 2020/21 budget was significant, in respect of increased expenditure and loss of income. This may have a significant impact on the Council’s ability to realise planned savings and efficiency programmes and service transformation within planned timeframes.</p>

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability	2020-21 budget
continued	<p><u>Original budget</u></p> <p>Your original General Fund Revenue Budget reflected an anticipated balanced budget position, with a further contribution of £270,100 being made to working balances in 2020-21. You continued to face the uncertainty around the funding of local government beyond 2020-21, and you planned to offset this uncertainty through growth in your Council Tax base and business rates (assuming a Council Tax increase of £4.95 (2.44%) in 2020-21), property acquisition strategy, service review process option implementation, and other workstreams which are part of your delivery of Bridging the Gap / Balancing the Budget activity. In proposing the budget for 2020-21, you built on a sustained track record in delivery of activity against each workstream. To date, measures totalling £4.25m have been reflected in the General Fund Revenue Budget .</p> <p>Your Housing Revenue Account (HRA) budget recognised you face pressures in maintaining a balanced budget for 2020-21, as expenditure in the year was anticipated to exceed the income generated in the year and contributions of £1,389,600 from the HRA General Reserve were required. You anticipated that Dwelling Rents for 2020-21 would increase by 2.7%, as a result of Rent Standard issued by the Regulator of Social Housing in respect of 2020-21. You considered key factors when proposing the budget for 2020-21, and we were satisfied that your projections were based on reasonable assumptions.</p> <p><u>Impact of Covid 19</u></p> <p>The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. You issued a report to provide a focus on the anticipated financial impacts of the pandemic on the Council. In the report, you anticipated the financial impact on the General Fund would be £3.75m, mainly from the reduction in Business Property Rents and Other Fees and Charges income, and £0.573m for HRA in 2020/21. The cumulative impact as presented across the MTFP from 2020/21 to 2028/29, came to £5.7m. The Ministry for Housing, Communities and Local Government (MHCLG) announced £1.6bn of initial Covid-19 emergency funding to local authorities on 20 March 2020 and a further £1.6bn of additional funding was announced on 18 April 2020. You received £0.52m from this first tranche and £1.05m from this second tranche. On 2 July 2020, the Government announced a major new support package to help councils respond to coronavirus as part of a comprehensive plan to support councils' financial sustainability for the future. Recognising that councils are best placed to decide how to meet pressures in their local area, the funding mentioned above was not ringfenced. However, this was unlikely to mitigate spend requirements on the COVID-19 response and was insufficient by itself to meet the other anticipated expenditure pressures of the council over the course of the current financial year.</p>

Value for Money

Significant risk

Medium term financial viability

continued

Findings and conclusion

Due to your efforts over the five years to 2020, through the delivery of your Bridging the Gap activity and Balancing the Budget Initiatives, you have a strong level of reserves which will help you avoid serious financial difficulty in the short term. The table below sets out your financial resilience position relative to English local authorities in the coronavirus crisis, as of 2020.

Risk index indicators for Gravesham			
Choose local authority 1		Gravesham	
Type		Shire district	
Indicator List	Indicator value	(1 = Most Risk, 10 = Least Risk) Decile - within type (out of 188 authorities)	Decile - all LAs (out of 339 authorities)
<i>Financial resilience and commitments</i>			
Estimated reserves (excl schls and pub health) as proportion of revenue expenditure, Mar 2020	152%	8	9
Percentage change in level of reserves in year to March 2020	0%	6	6
Average percentage change in level of reserves, last 3 years	16%	9	9
External interest and repayment on principal as proportion of revenue expenditure, 2019	5%	6	6

(Source: <https://www.ifs.org.uk/publications/14893>)

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability	Medium-term financial planning
continued	<p>The previous Medium Term Financial Strategy (MTFS) covered the period 2016-17 to 2019-20. Given the lack of clarity at the time from the government around the future funding of local government, and significant uncertainty regarding the potential impacts on the economy after the UK left the European Union, the S151 Officer and the Council's Senior Management Team agreed that it would be prudent to put in place a one-year MTFS for 2020-21.</p> <p>While attaining budget savings to mitigate reductions in central government funding on the scale forecast within your MTFP was likely to continue to be challenging, we noted that your MTFP was based upon reasonable assumptions and that you had appropriate arrangements in place for identifying and implementing savings to allow the plan to be achieved. Initially commenced during 2016-17, your Bridging the Gap /Balancing the Budget activities had been developed incrementally to enable the Council to bridge the gap in funding, and had been subject to detailed member scrutiny and challenge. To support the ongoing financial stability of the Housing Revenue Account, during 2020-21 an officer group was planned to be established to progress a number of strands of work. You spent considerable effort seeking to mitigate the risks to the delivery of your medium term financial plans and, whilst the medium term outlook remained (and remains) challenging, you demonstrated a history of being able to meet these challenges and in delivering planned financial targets.</p> <p>The MTFS recognised that Central Government funding levels for the Council, along with all Kent district authorities, was likely to decrease as a result of the Fair Funding Review. The timing of this review remained uncertain and was likely to be delayed further as a result of Covid-19. Management were keen to proactively engage with any discussions with the Government around proposals for potential additional devolution of funding, to facilitate a greater level of control over uncertainties which currently exist. Further general assumptions were made around pay and price inflation, Council Tax increases, reductions in service-specific grants and known spending pressures.</p> <p>In the pandemic climate, officers were continuing to review all assumptions built in to the MTFS in light of the impact of Covid-19 and other known changes. This was a process built on management's best estimates, given residual uncertainties which could have significantly impacted your financial outlook, such as the pattern of local and national economic recovery and the impact this would have on your ability to raise previously anticipated levels of income. Management were conscious that some levels of income might not recover within the timeframe of the MTFS, if ever, as well as the risk of a second wave of the pandemic and further lockdown restrictions, which could have further damaged the economic health of the Council for both businesses and individuals.</p> <p>As a council, you have been ambitious in your investment activity. Whilst this provides greater reward it also means there is increased risk in the event of economic downturn, as commercial income that was key to the Council's medium term financial resilience is under threat. You were aware of the importance of mitigating as much as possible the commercial risk the Council faces from a prolonged pandemic, especially given the investment in retail and the planned investment in the hotel and tourism industry.</p>

Value for Money

Significant risk

Findings and conclusion

Medium term financial viability

Sustainability of reserves

continued

It was critical that management continued to look beyond the current crisis and maintained sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and began to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control.

As at 31 March 2020, the revised accounts (which are still subject to audit) show general fund reserves of £8,935k and earmarked reserves of £14,944k, compared to £8493k and £17,323k respectively as at 31 March 2019 and £7,305k and £14,940k as at 31 March 2018. This was a reduction compared to the draft accounts, mainly due to the impact of the revised accounting for the St George's transaction. Your general fund reserves have remained at a broadly consistent level over the last two years despite the budget pressures you have faced. Your HRA reserves were £3,000k as at 31 March 2019, and remained constant for the past couple of years. Your general fund reserves level as they stood provided you with a cushion to weather the financial challenges that you faced over the medium term. However, whilst you had a moderately healthy level of useable resources at your disposal, you remained conscious of the importance of not losing sight of the longer-term challenges in determining an appropriate response to the current crisis. Careful monitoring of realization of anticipated benefits from change programmes and service transformation initiatives, which were planned to be invested in over the course of the MTFs, would have been fundamental to enabling officers to revise and refresh the Council's financial strategy to ensure financial sustainability.

Conclusion

The impact of the revised accounting for St George's was not identified in 2019/20, so was not included in budgets, the Medium Term Financial Plan or the provisional outturn. The revised accounting treatment has had an impact on the council's finances, with general fund reserves being lower than those included in the draft accounts and ongoing pressures for finance costs in future years. Our findings on the St George's transaction are documented in more detail against the St George's significant risk.

You delivered a balanced budget in 2019/20 and you set a Medium Term Financial Plan that indicated that you would continue to deliver a balanced budget through to the end of 2020/21. You put in place robust arrangements to ensure that risks and uncertainties were given due consideration in short and medium-term financial planning and the impact was effectively modelled, drawing on external support where knowledge gaps or wider unknowns are identified. Notwithstanding this, the commercial risks were significant given the Council's exposure from the investment strategy, and this risk could grow if planned investments in the tourism and hotel industry proceeded.

The financial outlook for the Council remained challenging. The outturn position for 2019/20 was broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand the impact of decisions taken was strong, and plans had been put in place for improvement to processes where significant variances were identified. You continued to face financial risk over the medium term and continued to develop plans to respond to this risk.

As a result of Government Funding and initiatives, prior year underspends and prudent financial planning included setting aside contingencies in the budget-setting process. This means you had sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic, and were not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which some comparable local authorities were having to consider.

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability continued	<p>In the medium term, the picture remained far more uncertain as the longer-lasting impacts of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remained significant unknowns. Management were conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpinned future investment decisions from use of reserves. It would have been critical that the risk associated with future investment decisions was continually reassessed as the unprecedented economic crisis, and its impact in particular on retail and commercial rents as well as tourism and leisure, continued to play out. The long term impact of the re-shaping of the economy and its impact on town and shopping centres was unknown, and it would have been critical that business cases supporting investment decisions were comprehensively updated based on the latest available forecasts.</p>

Value for Money

Key findings – Investment risk

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p>Investment risk</p> <p><i>As reported in the audit plan in 2020:</i></p> <p>As part of your strategy to respond to a decade of significant and sustained cuts, over the last four years you have increased your exposure to investment risk and commercial risk through the diversification of your investment activity and Property Acquisition Strategy.</p> <p>The Council holds £20m of investments in Multi-Asset Funds and Property Funds. Whilst this provides greater opportunities for the Council to generate investment yields beyond those offered by traditional banks and building societies, it also provides greater exposure to fluctuations in the capital value of the investments held.</p> <p>To date, the Property Acquisition Strategy has secured interests in seven commercial property holdings valued at £22m, generating some £1.5m in rental income per annum. The strategy does, however, expose the council to risks around movements in commercial property values and the strength of financial standing of the tenants of these properties.</p> <p>We will review your arrangements for identifying, assessing and mitigating the risk associated with these investments.</p>	<p>Note that the bulk of our work to address this risk was carried out during 2020, as our conclusion reflects arrangements during 2019/20 rather than those in later years. The revised impact of the St George’s transaction, which was not known at that time, is detailed as a separate significant risk.</p> <p>Multi-Asset Funds and Property Funds</p> <p>As at 31 March 2020, your total investment balances stood at £43m (2018-19: £46.23m). You continued to have holdings in Property Funds and Multi-Asset Funds, as well as maintaining shorter-term deposits with the UK banking sector and Money Market Funds. You achieved an average rate of return of 0.96% on your internally managed cash flow investments (including cash equivalents) for the year (2018/19: 0.76%) .</p> <p>When you invested in Property Funds in June 2016 and Multi Asset Funds in February 2018, you generally assumed income from the dividends would be around 3%-4%, with a view to holding the funds for a longer term . In 2019-20, you achieved an average rate of return of 4.07% on Property Funds (2018/19, 4.05%), with the average rate of return on Multi-Asset Funds being 4.75% (2018/19 4.28%). The fair value was calculated using quoted share prices, with a total value of £17.947m (2018-19: £19.796m). There was a downward movement of £1.85m of the Fair Value of the units held in these funds between 31 March 2019 and 31 March 2020, which were significantly affected by the COVID-19 pandemic.</p> <p>As a result of the COVID-19 pandemic, the Bank of England decided to reduce the base rate twice in just over a week to 0.1%, with one cut taking the base rate to its lowest-ever level. Due to the reduced base rate and significant volatility in the investment market, at the time you forecasted that the council’s investment income would be reduced by 23% in 2020/21, with returns in future years reflective of restrained base rate forecasts .</p> <p>Commercial property holdings</p> <p>Your Property Acquisition Strategy was approved by the Full Council in February 2016. Further amendments in terms of the rate of return were approved in October 2016. This strategy established a £10m fund within the authority’s capital program, to be funded from investment balances, which was made available for acquiring properties in order to generate a revenue return, and set the net initial yield on acquisition at a minimum level of 3% above the prevailing 25 year PWLB fixed maturity rate. There were subsequent reports to increase the amounts of funds available, but nothing had changed in terms of how the funds could be allocated. The investment properties were valued at £39.48m as at 31 March 2020, an upward movement of £0.79m from 31 March 2019. The rental income received in 2019-20 amounted to £1.490m, compared to a budgeted £1.177m , with an average return of 3.77%.</p>

Value for Money

Significant risk	Findings and conclusion
Investment risk	
continued	<p>The council was likely to see a downwards impact on rental income from tenants in its business premises. Commercial rent is generally due quarterly in advance on 25 March, 24 June, 29 September and 25 December. Given the UK lockdown did not commence until 23 March it was too early to accurately predict the likely impact on this income stream. Businesses had also been given extra protections from recovery action through the Government's action to temporarily ban landlords from serving statutory demands or issuing winding up petitions between 1 March and 30 June 2020. For the purposes of financial planning, it was assumed that there would be a 25% reduction in property rent collections in 2020/21 .</p> <p>Governance</p> <p>We reviewed your arrangements for identifying, assessing, and mitigating the risk associated with these investments. The Treasury Management Strategy Statement (TMSS) and Capital Strategy was presented to Finance and Audit Committee (F&A), who then recommended it to Full Council for approval. In addition to the TMSS, two further reports were presented to the F&A: a mid-year review and an annual review. Within these documents, the treasury and investment strategies were outlined and updated. You also reviewed treasury activity on a quarterly basis, and performance against the investment budget was reported through the quarterly budget monitoring process. TMSS also set out that you have Credit Worthiness (i.e. financial protection) in place and you were required to report any breaches to the next available committee, which had not occurred at the time.</p> <p>2019/20 onwards</p> <p>During 2019/20 you continued to operate a prudent investment strategy whilst also seeking to diversify the investment tools to maximize returns in what continued to be a difficult investment market.</p> <p><u>The Charter</u></p> <p>In June 2018 the council entered into an Exclusivity Agreement with Reef Estates Limited to bring forward residential and commercial development proposals for land formerly known as the Eastern and Western Quarters of Gravesend Town Centre. Since then, work had progressed in the background to develop a masterplan for the areas above involving representatives from The Reef Group and officers of the council, supported by a number of experts and professional advisors .</p> <p><u>Greenwich Investment Opportunity</u></p> <p>In late 2019, the council was approached by Reef Group with regards to a potential development opportunity on the Greenwich Peninsular. The proposal that was put before the council was for the development of a new Travelodge hotel (300 beds) at a key location on the Greenwich Peninsula, close to the O2 Arena and Greenwich Station. The council would enter a 50-year income strip lease for the development with the ability for the Council to purchase the freehold for a nominal sum before the end of its lease .</p>

Value for Money

Significant risk	Findings and conclusion
Investment risk	
continued	<p>Given the pandemic situation at the time and the uncertainty this had caused around the immediate and longer term outlook of the national economy, it was not considered commercially sensible to seek a firm decision to proceed with the project at the time and therefore delegated authority was sought to proceed with the scheme subject to the conditions set out being met. It was agreed that the Treasury Management Strategy Statement be appropriately updated, including the extension of the existing Operational Borrowing Limit and Authorized Borrowing Limits as required to ensure there was sufficient capacity to support this investment.</p> <p>The pandemic and resulting economic downturn, and in particular its impact on the hotel and tourism industry, meant the risk associated with this investment had significantly increased. Before any firm decision to proceed was made, the Council would have needed to ensure the business case remained viable and was based on the most up to date economic and industry forecasts. It would also have been essential the Council satisfied itself it would have the financial resilience to withstand the 'worst case scenario' in the business case sensitivity analysis, and that the investment remained highly likely to generate a return, even in the worst case scenario, to avoid a financial burden falling on taxpayers in the event of diminishing returns (for example, if rental income fell to a level below the MRP requirement, or in the event of significant asset value impairments or write-downs).</p> <p>Notwithstanding the delegated authority, it would be important Members were able to assess risk and make an informed decision based on the latest risk position at the time, prior to any investment. Key questions that you would have needed to be satisfied were properly considered included whether retail and hotels continued to be a good investment over the next few years given the pandemic and economic situation, what other risks and mitigations had been considered, how Covid related issues were factored into the business case decision (for example, the potential long term reductions in tourism, and continued quarantine of visitors to the UK), how this out of area investment supported the Council strategically and what specialist expertise you may have needed to ensure a fully informed and risk-assessed decision.</p> <p>You were also aware you would need to be satisfied of the appropriateness of investing through lease financing in a commercial investment of this nature outside of the borough.</p> <p>We understand that delegated authority was granted but that ultimately this investment was not taken forward by the council.</p> <p>Conclusion</p> <p>The Council had arrangements for assessing the risk associated with its investment strategies and to date had managed this risk well. Following the pandemic, the risk environment changed significantly. Whilst you had a strong foundation it would have been important to ensure the 'pessimism' of the current economic environment was comprehensively factored into future investment decisions and business case analyses, to enable the Council to continue its strong track record in this area and avoid commercial risks becoming a financial burden on the tax payer.</p> <p>You continued to be proactive in identifying and implementing new and innovative projects to deliver your investment objectives and as furtherance to your activity to secure long-term financial sustainability. We were satisfied the arrangements in place were appropriate in managing the associated risks.</p>

Value for Money

Significant risk	Findings and conclusion
<p>The Council’s arrangements in relation to St George’s Shopping Centre</p> <p>Following Grant Thornton’s challenge to the accounting treatment of the St George’s transaction, Grant Thornton and the Council sought external advice on the accounting treatment. During this period, we have seen the Covid-19 pandemic and the cost-of-living crisis which has adversely affected the financial effect of the transaction.</p> <p>We have identified an additional significant VFM risk relating to the council’s arrangements in relation to this transaction.</p> <p>Our work has focused on the governance arrangements in place at the time of the transaction and involved a review and analysis of the evidence available.</p>	<p>Our detailed findings are set out in a separate report which was reported to the November meeting of the Finance and Audit Committee.</p> <p>Conclusion</p> <p>The Council’s arrangements relating to the St George’s transaction have not secured value for money through economy, efficiency, and effectiveness in the use of resources. The issues identified in our report are evidence of weaknesses in proper arrangements for:</p> <ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance;• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management;• Reliable and timely financial reporting that supports the delivery of strategic priorities;• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. <p>We therefore anticipate issuing a qualified ‘adverse’ Value for Money Conclusion.</p>

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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.

Details of fees charged are detailed in Appendix C

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.


Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefit Grant		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 when considering the fee in comparison to the total fee for the audit 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.
• 2019/20	26,600		
• 2020/21	26,600		
• 2021/22	37,000		We carry out these non-audit services on an annual basis, the figures shown reflect indicative fees for years from 2019/20 to present and may be subject to change.
• 2022/23	45,000		
Certification of Housing Capital Receipts Grant		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 when considering the fee in comparison to the total fee for the audit 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.
• 2019/20	5,000		
• 2020/21	5,000		
• 2021/22	7,500		We carry out these non-audit services on an annual basis, the figures shown reflect indicative fees for years from 2019/20 to present and may be subject to change.
• 2022/23	7,500		

There are no non-audit related services provided.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Finance and Audit Committee. None of the services provided are subject to contingent fees.

Action plan




To date, we have identified 10 recommendations for the Council as a result of issues identified during the course of our audit. We have not yet agreed all our recommendations with management, but management responses have been requested. We will report on progress on the finalised recommendations during the course of the next audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 High	<p>St George's shopping centre accounting – Value for Money</p> <p>Ultimately, the Council's arrangements relating to the St George's transaction have not secured value for money through economy, efficiency, and effectiveness in the use of resources.</p>	<ul style="list-style-type: none"> The Council should carefully consider our VfM report to ensure all members understand the events and conditions that led to the issues set out in this report, so that lessons are learnt, and assurances are provided that arrangements are in place that would mitigate or avoid such a situation happening again. The Council should finalise the changes planned to accounting treatment and the early termination of the Aviva/Reef deal, confirm the overall financial impact and the consequences for the Council's financial sustainability, and put in place appropriate plans and arrangements to mitigate financial sustainability risks. <p>Management response</p> <p>The report has been formally considered by the Finance & Audit Committee and shared with both respective Group Leaders to ensure that current Members have been able to consider, scrutinise and seek further information and assurances on the report. Since 2018 the council has continued to review and develop its governance arrangements including:</p> <ul style="list-style-type: none"> Making enhancements to Member Induction and Training Programmes to increase skills and capacity to review and scrutinise proposals made for decision. Delivering focused Member briefings on areas for significant decision ahead of any decisions being made, to enable a good understanding of the decision to be made and enable any required clarifications to be sought. Continuing to make use of external expertise where the knowledge and skills required to bring forward project proposals for decision are not held in-house. Improvements to the content and format of decision reporting. Following receipt of the VfM Report the council will look to adopt a common format for reporting business cases to ensure consistency in approach and assist Members in their decision making. <p>The accounting treatment has been finalised and agreed with the External Auditor. Termination of the Aviva/Reef deal took place on 16th October 2023. The overall financial impact has been confirmed and reflected in the council's Medium Term Financial Plan. Activity to manage financial sustainability risk of the council's General Fund is directed by the approved Medium Term Financial Strategy and monitored through quarterly budget monitoring, annual budget setting and subject-specific reports to Cabinet.</p>

Controls

 High – Significant effect on control system
  Medium – Effect on control system
  Low – Best practice




Action plan

Assessment	Issue and risk	Recommendations
 High	St George's shopping centre accounting <p>The revised accounting has resulted in significant adjustments to the accounts including a restatement of prior year comparatives.</p>	<p>Where any complex arrangements are entered into, ensure that appropriate accounting advice is obtained if the council do not have sufficient expertise in-house.</p> <p>Management response</p> <p>The St Georges transaction was innovative for the local government sector at the time and there was no tested precedent for the accounting treatment to be applied. Improvements to the content and format of decision reports have been made, which emphasises the need for accounting advice to be obtained, either in-house or from external experts, and provided to Members as part of the decision-making process.</p>
 Medium	Manual adjustments <p>We identified some manual adjustments when mapping the Trial Balance to the accounts. Manual adjustments increase the risk of error.</p> <p>A manual process is used to classify balances as either debtor/creditor based on whether the overall balance is a debit or a credit. Our testing identified balances which were incorrectly classified which suggested that balances were not reviewed in any detail before being reclassified.</p> <p>Additionally, the ledger does not have a separate code for short term/long term borrowings, so a manual adjustment is made to split these out for the accounts.</p>	<p>Review the debtors and creditors process in order to ensure the accuracy of any manual adjustments made between debtors and creditors.</p> <p>Where possible, ensure that all accounts mapping is included on the ledger to reduce the need to make manual adjustments.</p> <p>Management response</p> <p>The council's ledger structure is such so that every balance sheet code has to be given an appropriate classification. We will look to continually review this structure as part of financial year-end procedures to ensure debtor and creditor balances are automatically allocated correctly, keeping manual adjustments to a minimum.</p>
 Medium	IT General Control - Superuser Admin access to Northgate <p>Superuser access to Northgate has been identified with users who are involved in the business process.</p> <p>This creates a risk of inappropriate access which could result in misstatement or fraud. Ideally, individuals with super user access should not be involved in transactional business processes.</p>	<p>Ensure there is a regular, documented review of superuser admin access to ensure no inappropriate access has been made.</p> <p>Ensure there is a relevant policy in respect of superuser access to reduce the potential risk of fraud.</p> <p>Management response</p> <p>A review of user access controls is underway to respond to the issue identified.</p>

Controls

 High – Significant effect on control system
  Medium – Effect on control system
  Low – Best practice





Action plan

Assessment	Issue and risk	Recommendations
 Medium	Review of payments near year end <p>Our expenditure testing identified an error where a payment was made prior to year end relating to expenditure for 2020/21, but this was not accounted for as a prepayment. While we were satisfied the error appeared to be isolated, this identified a gap in controls as payments made in March were not reviewed as part of closedown procedures, which increases the risk of error.</p>	<p>A review of payments made in March should be included as part of closedown procedures to reduce the risk of prepayments not being identified.</p> <p>Management response</p> <p>Closedown processes have been updated to ensure that the last three payment runs in March, as well as the first three in April each year are reviewed, thus ensuring wider coverage and opportunity to identify any prepayment/accruals and ensure proper accounting treatment.</p>
 Low	Payroll - Control Deficiency of unsigned starter form <p>The Council's payroll service is outsourced to the Medway Council shared services. From looking at the process notes we received from the Medway Council audit team, we expect that all starter forms / employment contracts will have a start date and will be signed by both the employee and the manager as proof that the starter had begun employment on that date.</p> <p>However when we received this sample evidence, the starter form didn't have a start date. When we received the copy that did have the start date, it wasn't signed by the employee. It was signed retrospectively after we had requested the evidence.</p>	<p>Ensure all starter forms are signed by both the employee and the manager and have a documented start date.</p> <p>Management response</p> <p>We believe the issue found was an isolated incident within the testing process. Since 2020, the council has automated the process for new employees which captures start date information and ensures appropriate segregation of duty and authorisation as part of this process.</p>
 Low	Review of expert's reports <p>There is a pensions experience item which is included in the Barnett Waddingham report which is material and an unusual variance from last year (as the item was a nil balance and hence is new this year). This was not challenged by management. This indicates that the Council have not reviewed the report in order to ensure they understand any particular variances that may be distorting their financial accounts.</p> <p>We also identified some evidence of a lack of challenge over the work of the valuer, including a reliance on Reef for source data.</p>	<p>Perform a review of all reports provided by management experts such as the actuary and valuer and ensure any unusual movements are queried to understand the reasons behind these and ensure they are valid.</p> <p>Management response</p> <p>The council will rightly rely on expert reports for technical information to be included in the financial statements. Processes are in place to review such reports, albeit it is recognised that the performance and outcomes from these processed could be better documented for audit purposes.</p>

Controls

 High – Significant effect on control system
  Medium – Effect on control system
  Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
 Low	PPE valuations – source data We were unable to verify source data for the passing rent of leases which had been updated (i.e. through a Rent Review) and had to take alternative procedures to verify the amounts through receipts and invoices. We were also unable to obtain sufficient appropriate evidence for the source data inputs for valuation of garages, as screenshots were not retained.	A full audit trail should be retained to support key inputs to all valuations. Management response PPE Valuations, in the main, are undertaken by qualified officers within the council. The audit recommendation has been discussed with these officers and improvements made to valuation reports to assist the valuation and audit processes.
 Low	Valuation date Where valuations are undertaken as at 1 April, there is an increased risk that values may have moved materially by year end. This can increase workload both in terms of obtaining updated valuations where necessary, as well as additional audit work required over movements in year.	The council should consider moving all valuations to 31 March. Management response This recommendation will be discussed with the internal Valuation Staff and implementation considered as part of the preparations for the 2022/23 Financial Statements.
 Low	Debtors and Creditors Full reconciliations/listing of debtors and creditors at 31 March 2020 had not been prepared by management, and this resulted in a number of reselections being required in our testing.	Review the debtors and creditors process in order to be able to identify the balances as at year end and provide cleansed listings for audit Management response This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements.
 Low	Componentisation We identified a number of assets where the land element had been assessed as £1 with the remainder of the value assigned to the buildings element. There is a risk that depreciation may be understated if this split is not appropriate, although we were satisfied there was no material risk.	Management should consider whether the split between the land and buildings elements of such assets is compliant with the Code. Management response This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements.

Controls

 High – Significant effect on control system
  Medium – Effect on control system
  Low – Best practice

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
St George's shopping centre accounting - 2018/19 restatement			
As set out on pages 14 to 16, the accounting treatment for St George's has been revised to reflect accounting as a loan rather than a lease. This has required a restatement of 2018/19 (to reverse the original entries and reflect the new entries), as well as amendments to 2019/20.			
Cr St George's Revaluation Loss	(84,857)		(84,857)
Cr Gain/Loss on disposal (FIIE)	(3,500)		(3,500)
Dr Interest payable	1,573		1,573
Dr Capital Grants and Contributions	294		294
Dr Short Term Creditors		184	
Dr Short Term/Long Term Borrowing		69,519	
Dr Capital Grants Received in Advance		13,949	
Dr Revenue Grants Received in Advance		8,884	
Impact on reserves:			
Dr Usable Reserves		795	
Cr Unusable Reserves		(93,332)	
Overall impact – 2018/19 comparatives	(86,490)	Net assets: 92,536	(86,490)

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
St George's shopping centre accounting – 2019/20			
Note that some of the 2019/20 Balance Sheet adjustments flow from the 2018/19 restatement (see previous page) due to the impact on opening balances for 2019/20. The adjustments below reflect the full impact compared to the original draft 2019/20 accounts.			
Cr Communities (CIES)	(1,716)		(1,716)
Dr Interest payable (CIES)	817		817
Dr Capital Grants and Contributions (CIES)	1,817		1,817
Cr Other Land and Buildings		(4,209)	
Dr Short Term Creditors		184	
Dr Short Term/Long Term Borrowing		68,889	
Dr Capital Grants Received in Advance		12,133	
Dr Revenue Grants Received in Advance		8,700	
Impact on reserves:			
Dr Usable Reserves		1,415	
Cr Unusable Reserves		87,112	
Overall impact	See overleaf	See overleaf	See overleaf

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
HRA valuations – revised index applied			
Dr HRA dwellings revaluations (CIES)	5,423		5,423
Cr Council Dwellings		5,423	
Land and buildings			
We identified a number of errors including incorrect inclusion of finance costs and demolition costs from DRC valuations, errors in valuation of garages, and errors relating to depreciation.			
Dr Finance and Investment Income and Expense (Investment Properties)	80		80
Cr Investment Properties		(80)	
Cr Communities (CIES)	(476)		(476)
Cr Other Land and Buildings		(1,169)	
Dr Revaluation Reserve		1,379	
Cr Capital Adjustment Account		(210)	
HRA revaluation reserve			
The HRA revaluation has been reconstructed. Please see also unadjusted misstatements.			
Dr Capital Adjustment Account		15,852,334	
Cr Revaluation Reserve		(15,852,334)	
<i>These adjustments are still in the process of being audited</i>			
Overall impact (cumulative)	5,945	Net assets: 89,871	5,945

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Detail	Auditor recommendations	Adjusted?
Related Party Transactions	<p>The related party disclosure note submitted for audit omitted a disclosure for one Councillor that was identified by the audit team, and this should be corrected</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this related party transaction</p>	✓
Investment properties	<p>Management should add a disclosure to the accounts in respect of the material valuation uncertainty relating to investment properties, as well as additional disclosures about fair valuation methods and inputs.</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this. We will emphasise this material valuation uncertainty in our opinion.</p>	✓ - subject to review of final version of accounts
Property, Plant and Equipment	<p>The Council should add an analysis of when assets had been revalued within the PPE note.</p> <p>Depreciation written out on revaluation was presented as 'Other movements in cost and valuation', the presentation could be amended to be clearer to a reader. We also identified some errors in the presentation of depreciation movements on valuation which should be corrected.</p> <p>Surplus assets were incorrectly described as 'other land and buildings'.</p> <p>The disclosure note was also updated to reflect the adjusted misstatements that relate to PPE (including council dwellings).</p> <p>Management response</p> <p>Management has agreed to update the financial statements</p>	✓ - subject to review of final version of accounts
Audit Fees	<p>We requested additional disclosure to separate out audit fees relating to the prior year. We also requested the disclosure be updated to reflect the most recent fee variation proposed.</p> <p>Management response</p> <p>Management has agreed to update the audit fee disclosures to reflect the interim fee variation which has been agreed.</p>	✓ - subject to review of final version of accounts

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Detail	Auditor recommendations	Adjusted?
St Georges	<p>The revised accounting for St George's requires a full restatement of comparative figures, including an additional disclosure note to meet Code requirements to disclose the nature and amount of all restatements.</p> <p>We identified a classification error in the original version of the restatement as the reversal of the loss on disposal originally recognised was accounted for as an adjustment to Other Operating Expenditure. This should be corrected to classify the reversal against Financing and Investment Income and Expenditure.</p> <p>Additionally the amended accounting treatment will require amendments to all related disclosures.</p> <p>Management response</p> <p>Management has agreed to update the financial statements</p>	✓ - subject to review of final version of accounts
Capital commitments	<p>The disclosures are incomplete as they exclude commitments longer than 3 years, this should be corrected</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this.</p>	✓
Expenditure and Income by Nature	<p>£2.1m was misclassified between employee expenses and other service expenditure, with a similar error of £4.3m in 2018/19. The note included internal recharges, these could be removed as they are correctly excluded from the CIES.</p> <p>£1.8m relating to revaluations gains/losses was incorrectly classified as Other Service Income.</p> <p>All of these should be corrected, with appropriate disclosure for the restatement.</p> <p>Management response</p> <p>Management has agreed to update the financial statements</p>	✓
Critical judgements and estimation uncertainty	<p>We recommended some improvements to disclosures, including removing immaterial disclosures and adding additional detail to more fully meet the requirements of IAS 1 and the Code. Additionally, following the change in accounting for St George's we recommended the council consider any additional critical judgements that should be disclosed. We also recommended that additional disclosure should be included to reflect the estimation uncertainty identified relating to council dwellings.</p> <p>Management response</p> <p>Management has agreed to update the financial statements for some of the points raised but has chosen to retain some disclosures that do not appear to be material</p>	Partial

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Detail	Auditor recommendations	Adjusted?
CIES	<p>The 2018/19 comparatives only showed net expenditure, which is not in line with the Code which requires full disclosures of gross income and expenditure as for 2019/20. This should be corrected.</p> <p>Management response</p> <p>Management has agreed to update the financial statements</p>	✓
Cashflow Statement	<p>The figure for purchase of investments appeared to be incorrect.</p> <p>Adjusted misstatement elsewhere in the accounts also have an impact on the Cashflow Statement which has therefore been updated by management.</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this.</p>	✓ - subject to final audit based on final version of accounts
Unusable Reserve Notes	<p>The adjustment to create the HRA revaluation reserve was incorrectly netted against the line for 'Difference between fair value depreciation and historic cost depreciation'. This should be disclosed separately with additional explanatory disclosures included.</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this.</p>	✓ - subject to review of final version of accounts
HRA notes	<p>Note 15.7 Capital Receipts incorrectly labelled the transfer to Capital Adjustment Account as a transfer to Earmarked Reserves, this should be corrected</p> <p>Note 15.4 Vacant Possession Value should be corrected to match the valuation report.</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this.</p>	✓ - subject to review of final version of accounts
Other Operating Expenditure and Financing and Investment Income and Expenditure	<p>The notes disclosed net figures, it may be clearer to a reader to separate these into gross income and expenditure</p> <p>Management response</p> <p>Management has agreed to update the financial statements in respect of this.</p>	✓

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Detail	Auditor recommendations	Adjusted?
Narrative Report	Some improvements were suggested to more fully reflect changes since 2020. Management response Management has agreed to update the narrative report	✓ - subject to review of final version of accounts
Accounting policies	Some minor improvements to accounting policies were proposed Management response Management has agreed to update the financial statements in respect of this.	✓ - subject to review of final version of accounts
Events after the reporting period	The note should be updated to reflect the fact the Aviva deal has now been terminated Management response Management has agreed to update the financial statements in respect of this.	✓ - subject to review of final version of accounts
MIRS – General Fund and HRA balances	The MIRS does not show the total statutory General Fund and HRA balances including earmarked reserves, because earmarked reserves are shown separately. Additional columns and/or disclosure should be added to meet Code requirements. Management response Management has declined to add additional columns to the MIRS, as there is a cross reference to Note 14.16.3 which contains this information. Management has agreed to update the description for earmarked reserves to make this clearer.	Partial
Financial Instruments disclosures	Investments carried at fair value through profit and loss were incorrectly disclosed as being held at amortised cost. Gains/losses on FVTPL assets were disclosed as being part of Other Comprehensive but should be disclosed as being part of the surplus/deficit on provision of services column Fair value disclosures related to the Aviva loan require updating, however due to the fair value calculation using some of the same inputs that are subject to our proposed qualification (as per pages 14-15), these disclosures will also form part of our overall proposed qualification. Management response Management has agreed to update the financial statements in respect of this.	✓ - subject to review of final version of accounts

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Detail	Auditor recommendations	Adjusted?
Expenditure and Funding Analysis (EFA)	The EFA did not analyse the statutory adjustments between service lines, instead including them within 'other income and expenditure). This should be corrected (and will require a restatement of prior year figures as the adjustment is expected to be material).	Partial (immaterial)
	The amended accounts included updated 'outturn' figures. IFRS 8 requires the figures to reflect those reported to chief decision makers. As the amended figures were not included in the reporting of the outturn to members, our view is that the 'outturn' columns should be unchanged, with the amendments shown as adjustments. This is not material.	
	Management response Management has agreed to update the financial statements, including a restatement. The outturn adjustments have not been changed on the basis that this is what would have been reported if the accounting treatment had been known.	

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
St George's <p>See also the adjusted misstatements. As detailed on page 14-15, our view is that we have been unable to obtain sufficient evidence to confirm whether the council's accounting judgement (eg to exclude from the council's accounts the additional amounts paid by Aviva via Reef) is appropriate.</p> <p>If a different accounting treatment were taken, the impact could be material (up to £28.2m). The nature of the impact would vary for different elements of the payments but could potentially impact all four primary statements to varying degrees (some materially). However, we are unable to confirm whether there is an error or errors, or the value of such error(s).</p>	Unable to determine	Unable to determine	We understand that in management's view the payments made were outwith the Council's accounting as they did not make any payments or receive any income in their book and records which reflect these transactions.
HRA valuation <p>See also the adjusted misstatements relating to the reconstruction of the HRA revaluation reserve. As detailed on page 12, we have requested that the council account for a full restatement in line with the CIPFA Code but management have declined to do this.</p> <p>We are unable to assess the full impact of this error but expect it to be material. This would be expected to impact the CIES, MIRS, Cashflow Statement, the PPE note, Unusable Reserves note and other related notes. There is no impact on the face of the Balance Sheet. We therefore expect that our audit opinion will be modified in this respect.</p>	Unable to determine	Unable to determine	We understand that this is due a lack of capacity for the council to complete the additional work required and a desire to conclude the 2019/20 audit.
Overall impact	<i>See overleaf</i>	<i>See overleaf</i>	

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Expenditure			
Our testing identified the Council had incorrectly recognised, in the current financial year, one payment (£95,049.42) for building insurance that related to 2020/21. This should instead have been accounted for as a payment in advance.			Identified as an isolated error and not material to the accounts.
We were satisfied from our audit procedures that this appeared to be an isolated error. We have also raised a control recommendation (Appendix A).			
Cr CIES	(95)		
Dr Prepayments		95	
Creditors			
Two errors were identified in testing of creditors, both resulting in overstatement. One related to income treated as a receipt in advance which should have been recognised as income; the other related to an item which had been paid prior to year end. The actual errors totalled £12k and we performed an extrapolation to estimate the potential error within the population as £164k (note that this is an estimate rather than an actual error).			Actual net impact of identified errors was £12k, and therefore not material to the accounts.
Cr CIES	(164)		
Dr Creditors		164	
Misclassification of Debtors/Creditors			
We identified a significant number of errors related to manual reclassifications between debtors and creditors. Following additional work we assessed the error as £81k (overstatement of both debtors and creditors)			Actual net impact of identified errors was £81k, and therefore not material to the accounts.
Dr Debtors	81		
Cr Creditors		81	
Overall impact	<i>See overleaf</i>	<i>See overleaf</i>	

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Source data – Garages valuations			
The council were unable to provide sufficient and appropriate audit evidence to support the £550 car parking space initial valuation (source data) and then the 15% uplift. While this is not a confirmed error, it reflects an area where we do not have sufficient audit evidence. We have assessed the uncertainty as £85k.			Not a confirmed error and assessed uncertainty value not material to the accounts.
Cr PPE		(85)	
Dr CIES or Revaluation Reserve	85		
Overall impact	Unable to determine	Unable to determine	

Audit adjustments

Impact of prior year unadjusted misstatements

The following adjustments were identified last year but not corrected in the 2018/19 financial statements, We have set out below their impact on the 2019/20 financial statements.

Detail	Reason for not adjusting
<p>Potential impact of the McCloud judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.</p> <p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,234k, and an increase in service costs for the 2019/20 year of £96k creating potential misstatement of £1,339k</p> <p>We satisfied ourselves that there was not a risk of material error as a result of this issue. We also acknowledged the significant uncertainties both relating to the outcome of the appeal process at the time of the approval of the financial statements, and relating to the estimation of the impact on the Council's liability.</p>	<p>The figures provided by the actuary were an estimate, and not a formal actuarial valuation.</p> <p>Although we were of the view that was sufficient evidence to indicate that a liability was probable, we were satisfied that the differences were not likely to be material.</p> <p>This has been corrected as part of the actuarial valuation exercise in 2019/20.</p>
<p>Operating expenditure cut-off</p> <p>During our work on operating expenditure we identified one error where an item of expenditure totalling £3,022 was included in 2018/19 but related to 2017/18 expenditure. The error arose due to the Council not raising an accrual in 2017/18.</p> <p>There is no indication that the Council is misstating its accounts by not following the accrual process. We have calculated the projected misstatement in 2018/19 as a potential overstatement of expenditure of £705k. The Council has accepted our recommendation by increasing its accrual limits from £750 to £2,000 for the 2019/20 closedown process.</p>	<p>The potential misstatement is an extrapolated error therefore it is not appropriate to amend the financial statements for it.</p> <p>It is worth noting our testing identified a similar error in the current year, as set out on the previous page.</p>

Fees

We confirm below our final fees charged for the audit and overleaf for the provision of non-audit services.

Audit fees	Proposed fee per audit plan	Final fee
Council Audit	48,536	TBC*
Total audit fees (excluding VAT)	£48,536	£TBC

*We have proposed an interim fee variation for work completed up to 31 July 2023, which is subject to PSAA approval (please see page 61). We anticipate requesting a further variation for audit work completed after this date due to the relatively high level of adjustments identified.

The proposed fees reconcile to the initial version of the financial statements as follows. We have requested that the accounts be amended to incorporate the current fee variation and management have agreed to update the disclosure in the final accounts to include the variation as set out on page 61.

- fees per draft financial statements - £54k
- Less 2018-19 additional fee - £5.2k
- total proposed fees per above

Fees

Non-audit fees for other services	Indicative fee	Final fee
Audit Related Services:		
Certification of Pooling of Housing Capital Receipts return		
• 2019/20	5,000	TBC
• 2020/21	5,000	TBC
• 2021/22	7,500	TBC
• 2022/23	7,500	TBC
Certification of Housing Benefits claim		
• 2019/20	26,600	TBC
• 2020/21	26,600	TBC
• 2021/22	37,000	TBC
• 2022/23	45,000	TBC
Non-Audit Related Services	N/A	N/A
Total non- audit fees (excluding VAT)	160,200	£TBC

- We carry out these non-audit services on an annual basis. Given the delay in completing the audit we have reported indicative fees for all years from 2019/20 to present. This is based on indicative fees and may be subject to change.

Appendix C

Fees

We confirm below our fee proposal based on work completed up to 31 July 2023. We anticipate requesting a further variation for audit work completed after this date.

Audit area	£	Rationale for fee variation
Scale fee published by PSAA 2019	41,036	This is this is the PSAA scale fee and is unchanged from 2018/19.
Enhanced audit procedures for Property, Plant and Equipment	1,750	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by increasing the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Enhanced audit procedures for Pension Liabilities (IAS19)	1,750	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Covid-19 impact	6,000	Additional audit work required due to the impact of Covid-19
Technical accounting issue – St George's transaction	12,000	Additional audit work relating to the accounting for the St George's transaction
Value for Money	8,000	Additional VFM work relating to the St George's transaction
PPE valuations – use of auditor's expert valuer	5,500	This reflects the cost of engaging an auditor's expert valuer as part of our work on PPE valuations
HRA revaluation reserve	4,604	Additional audit work required due to the recreation of a revaluation reserve for HRA revaluations
Revised audit fees 2019/20 (excluding VAT) – to 31 July 2023	83,140	This reflects the total for work completed up to 31 July 2023 including the scale fee. All variations to the scale fee will need to be approved by PSAA.

Audit opinion

We anticipate we will provide the Council with a qualified audit report. The exact nature of the modification will be determined following completion of our internal consultation processes. A draft version of our audit report has been included below for information but the form and content of this is subject to change.

Independent auditor's report to the members of Gravesham Borough Council

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the financial statements of Gravesham Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for qualified opinion

Note X of the financial statements highlights the material change in the accounting treatment of the Council's financing of its regeneration of the St Georges Shopping Centre and associated properties. We were unable to obtain sufficient appropriate audit evidence for the amortised cost of the liability recognised in the accounts. This was due to being unable to obtain sufficient evidence to support management's judgement that certain payments to third parties originating from the lender fell outside the council's accounting boundary. We were also unable to conclude on the accounting treatment for an embedded prepayment option, and the appropriateness of Retail Price Index (RPI) assumptions included in the calculation of the effective interest rate.

Consequently, we were unable to determine whether any adjustment to the accounts were necessary. We have concluded that the possible effects of these uncertainties could be material. Alongside an impact on the Balance Sheet, related entries such as financing expenditure may be materially misstated for the same reason, with potential impacts on the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and related notes. The uncertainty also applies to the prior year restatements relating to St George's.

We also identified an accounting error relating to an adjustment to reconstruct a Revaluation Reserve for council dwellings. This was accounted for as an adjustment between the Capital Adjustment Account and the Revaluation Reserve. The correct accounting treatment would have been to account for all revaluation gains/losses through either the Surplus/Deficit on Provision of Services or Other Comprehensive Income and Expenditure as appropriate, and to restate prior year comparatives including opening balances. We have concluded that the possible effects of this error could be material. Alongside an impact on the Comprehensive Income and Expenditure Statement, the error would be expected to impact the Movement in Reserves Statement, Cashflow Statement and related notes, along with the Unusable Reserves note. There is no impact on usable reserves. The prior year comparatives are also affected.

Audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director (Corporate Services)' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director (Corporate Services) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Director (Corporate Services)' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 14.6, 14.9, 14.23 and 14.27 of the financial statements, which describe the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings (including council dwellings, other land and buildings and investment property), the Authority's share of the pension fund's property investments, and the authority's own investments in pooled property funds as at 31 March 2020. As, disclosed in note 14.6, 14.9, 14.23 and 14.27 to the financial statements, the outbreak of Covid-19 meant that the valuers considered that they could attach less weight to previous market evidence for comparison purposes. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report, the pension fund's property valuation reports and the property funds' valuers' reports. Our opinion is not modified in respect of this matter.

Other information

The Director (Corporate Services) is responsible for the other information. The other information comprises the information included in the Financial Review and Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Audit opinion

As described in the basis for qualified opinion section of our report, we were unable to obtain sufficient appropriate audit evidence regarding the amortised cost of the financing arrangement linked to St George's shopping centre (and related entries), and we identified a potentially material error in the accounting for revaluation entries related to council dwellings. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters. Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Qualified opinion on other matter required by the Code of Audit Practice

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Review and Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director (Corporate Services) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director (Corporate Services). The Director (Corporate Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director (Corporate Services) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director (Corporate Services) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Finance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for adverse conclusion

In June 2018, the Authority entered into a financing arrangement for the regeneration of the St George's Shopping Centre in Gravesend and associated properties ('the transaction'). We challenged the Authority's accounting treatment for the transaction during the 2019/20 audit and it was subsequently revised by the Authority. Following this revision, our consideration of the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources identified the following matters:

- There were significant weaknesses and limitations in the level of independent advice and due diligence that were undertaken to support the Authority's decision to progress the transaction in May 2018
- The decision was made to proceed with the transaction before a key piece of due diligence from treasury management advisors had been properly considered
- The financial consequences of adverse economic scenarios arising from the transaction and mitigating actions were not fully communicated to members
- Professional advice was not obtained on the accounting treatment for the transaction, and to properly understand its financial impact
- Members were not provided with the information they needed to make an informed and appropriate decision on the transaction
- The timing of key approval meetings for the transaction on the same evening provided no time or space to reflect or seek further detail and advice between meetings, while the delegation of the final decision to officers, in consultation with leading members, removed the potential for further member scrutiny

These matters reflect significant weaknesses in the Authority's arrangements for informed decision making and sustainable resource deployment.

These matters are evidence of weaknesses in proper arrangements for:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management
- Reliable and timely financial reporting that supports the delivery of strategic priorities
- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Audit opinion

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Gravesham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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