The Audit Findings - Addendum for Gravesham Borough Council

Year ended 31 March 2020

February 2024

Contents

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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

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:

- 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.

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.

We reported the key findings in our Audit Findings Report in December 2023. Since then we have finalised our review of the amended accounts and identified a number of additional misclassification and disclosure changes, and other areas of management judgement which we wish to report to those charged with governance. This report should be read in conjunction with our original Audit Findings Report as it does not repeat findings that have been previously reported.

Our additional findings are summarised on pages 4 to 6. Since our original Audit Findings Report we have identified no further adjustments to the financial statements that have a net impact on the Council’s Comprehensive Income and Expenditure Statement or General Fund. Disclosure and presentation adjustments are detailed in Appendix B.

We have also raised additional recommendations for management as a result of our audit work in Appendix A.

Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing a modified audit opinion in February 2024. The outstanding matters include the following items:

- Receipt and review of the final approved set of financial statements
- Finalisation of work in respect of subsequent events
- Receipt of management representation letter
- 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.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation, subject to receipt and review of the final version.

As previously reported, there are two key areas which we have been unable to fully resolve and as a result, we anticipate that our audit opinion will need to be modified. Our proposed audit opinion has now been agreed and is included in Appendix D.

Significant findings – key estimates and judgements

Accounting area	Summary of management's response	Auditor commentary	Assessment
Assets under construction Due to the time elapsed since the original audit, we updated our review of the council's assets under construction, which had a balance at 31/3/20 of £4.3m. We identified that the balance includes £1.2m relating to Dering Way. On further enquiry we identified that this asset is still not operational and construction work had not commenced at the time of audit (January 2024).	Management's judgement was that classification as assets under construction was appropriate as the council held the land with the intention of developing it (to build flats and a caravan site), and it was therefore not currently available for use in the manner intended by management	• We note that judgement is required in the classification of this asset. • At £1.2m the asset is not material, so there is no material risk identified from this judgement. • It appears unlikely that if another classification such as surplus assets were more appropriate, that fair value would be materially different to historic cost, as the purchase was relatively recent. • We enquired whether the delays were due to any identified issues with the land but have not identified any indications that this is the case. • We are satisfied that there does not appear to be any material risk and no indicators of impairment have been identified. • Management should consider the classification of this asset in future years to ensure it is in line with CIPFA Code requirements.	Orange
Surplus assets Surplus assets are required to be valued at fair value. The accounts include a closing balance of £246k for surplus assets. We identified that £195k of the balance relates to surplus assets carried at cost.	The accounting policies state that surplus assets are carried at fair value, estimated at highest and best use.	• The valuation base for the £195k of surplus assets carried at cost is not compliant with the CIPFA Code. • Given the value, any risk of material misstatement appears low. • Management should consider the approach taken to valuation of such assets in future years.	Yellow

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 response	Auditor commentary	Assessment
Classification of financial instruments The authority holds a number of investments in money market funds (MMF), with a carrying value at 31 March 2020 of £4.5m. The authority is required to assess the classification of all financial assets using the requirements of the CIPFA Code and IFRS 9. This is based on an assessment of whether the cashflows meet the definition of solely principal and interest (SPPI) and the business model under which the authority holds the investments.	Management's judgement is that the contractual arrangements give rise to cash flows, on specified dates, that are solely payments of principal and interest on the principal amount outstanding. This is on the basis that these MMF have instant access and the daily interest rates are easily available. Additionally the authority only hold the investment to collect interest payments from them. Entry and exit from them does not result in any gain/(loss) during the time the authority are invested in the fund, but only interest payments. For business model, council's view is that the Council is holding this asset with the objective of collecting the contractual cash flows arising from the investment. Therefore the Council is satisfied that is correct to hold these at amortised cost.	• Our understanding is that in the majority of cases, cash flows of investments in MMFs will not be SPPI. The underlying investments held by the MMF may be SPPI, but those investments are periodically bought and sold by the MMF. That means the net asset value (NAV) of the MMF will not represent SPPI because it includes gains/losses from the sale of the underlying investments. If investments in MMFs are puttable back to the MMF at NAV, they are not puttable at an SPPI amount (because the NAV is not SPPI). In the same way, interest/dividends would not be SPPI as they are based on the NAV, which includes gains/losses from the sale of the underlying investments. • We have not been provided with evidence to demonstrate that the nature of the council's investments are that the cashflows are SPPI, and therefore on the basis of the evidence we have so far, we would need to disagree the council's assessment. We would expect these to be most likely to be required to be classified at Fair Value Through Profit and Loss (FVTPL). • Given the nature of MMFs, this is not expected to significantly impact the CIES or Balance Sheet so the main impact is on the disclosures in the Financial Instruments note. We have assessed that although the figures are material, it does not impact our audit opinion as it would not be deemed to impact a reader's decision making. • Management should consider the classification of MMFs in future years	Yellow

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 response	Auditor commentary	Assessment
Fair value hierarchy – investments The authority holds a number of investments in pooled funds which it has classified at Fair Value Through Profit and Loss (FVTPL). The carrying value at 31 March 2020 was £17.9m, of which £10m are investments in pooled property funds. The accounts are required to include disclosures about fair value. The disclosure requirements are increased for those assessed as being Level 2 or Level 3 in the fair value hierarchy. The accounts include material valuation uncertainty disclosures for the investments in pooled funds.	The authority has assessed that all of its investments in pooled funds are Level 1 of the fair value hierarchy (quoted prices in active markets that the entity can access at the measurement date). This is based on prices quoted by fund managers.	• Management assessment that these should be classified as FVTPL appears reasonable • On the basis of the evidence we have so far, we would need to disagree with the council's assessment that investments in pooled property funds are Level 1 in the fair value hierarchy. In particular: ○ the accounts include material valuation uncertainty disclosures for these investments. Level 1 values do not have estimation uncertainty because they are quoted prices in active markets, so we would also not expect them to have material valuation uncertainty. ○ we have seen correspondence from one fund manager (Lothbury) which indicated that if the authority redeemed its investment at the year end date it would not have received payment until June 2020 and the value could be lower than the price indicated on 31 March. Therefore we do not have evidence that the price used was one that the authority could access at the measurement date. • We would expect these pooled property investments to be most likely to be Level 2 or 3 in the fair value hierarchy. This is a classification error only in the Financial Instruments note and does not impact the values shown in the Balance Sheet. We have assessed that although the figures are material, it does not impact our audit opinion as it would not be deemed to impact a reader's decision making. This is due to the fact that there are material valuation uncertainties disclosed over these investments and this will be highlighted in an emphasis of matter in our audit opinion. • Management should consider the fair value hierarchy classification of the investments in future years	Orange

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

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 were notified through annual declaration in 2020 that a Grant Thornton employee at that time had a close family member who worked in the Council's finance team. We implemented sufficient safeguards to address this including:

- The individual did not provide services to Gravesham Borough Council or its affiliates
- The individual did not people manage (directly or indirectly) anyone working on the audit
- Restricting access to the audit files

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

Action plan

We have identified an additional 4 recommendations for the Council as a result of issues identified during the course of our audit, in addition to those reported in our original Audit Findings Report. 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
● Low	**Assets under construction** Dering Way is included in assets under construction but work has still not commenced. Therefore there appears a risk that the asset should be classified in a different asset class (such as surplus assets). If assets are not classified appropriately then there is a risk their carrying value may not be compliant with Code requirements	Management should consider the classification of this asset in future years to ensure it is in line with CIPFA Code requirements **Management response** This will be considered as part of the 2020/21 statement of accounts process.
● Low	**Surplus assets** Surplus assets should be valued at fair value, but the balance in the accounts includes some assets carried at cost.	Management should consider the approach taken to valuation of such assets in future years. **Management response** This will be considered as part of the 2020/21 statement of accounts process.
● Low	**Money market funds - classification** We were unable to obtain sufficient evidence to support management's judgement that the cashflows for their investments in MMFs meet the definition of SPPI.	Management should consider the classification of MMFs in future years **Management response** This will be considered as part of the 2020/21 statement of accounts process.
● Low	**Pooled property funds – fair value hierarcy** We were unable to obtain sufficient evidence to support management's judgement that the fair valuations for pooled property funds are Level 1 in the fair value hierarchy.	Management should consider the fair value hierarchy classification of the investments in future years **Management response** This will be considered as part of the 2020/21 statement of accounts process.

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.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and not previously reported in our Audit Findings Report.

Detail	Auditor recommendations	Adjusted?
CIES	We identified two presentational errors in the updated December 2023 version of the CIES: • the lines for HRA Services and HRA Dwelling Revaluations were both misstated by offsetting differences of £6.6m, with no net impact on cost of services. This requires correction. • the gross 2018/19 figures for Financing Investment and Expenditure were both misstated by £492k due to an incorrect adjustment, with no net impact overall. **Management response** Management has agreed to correct the errors.	✓
Cashflow Statement	As previously reported, the Cashflow for both years was updated due to multiple adjustments mainly linked to the other changes to the accounts plus an error in the presentation of payments for investments. On review of the updated Cashflow statement, we identified a further presentational error - £1,849k relating to valuation movements on investments held at FVTPL was incorrectly included in proceeds from investments rather than in the valuations line in the non-cash adjustments section of cash flows from operating activities. This requires updating and the related disclosure in the Narrative Report also requires updating. Additionally various lines for both current year and prior year figures have either presentational errors or remaining differences which have not been explained by management - none of these are material individually or in aggregate, but they are an uncertainty as we have not been able to verify whether they are accurate. **Management response** Management has agreed to correct the £1,849k error. The other errors and differences are immaterial and management has decline to correct or explain them.	Partial – remaining immaterial presentational errors/ uncertainties
Pension Reserve note	There is no detailed pension reserve note – opening and closing balances are shown within the Unusable Reserves table in note 14.15 but not movements in the year. The requirement in Code 3.4.2.67 is that 'an authority shall disclose … a description of the nature and purpose of each reserve, the carrying amount of each reserve as at the balance sheet date and the movement in the reserve in the period.' This requirement is therefore not fully met. **Management response** Management have declined to amend on the basis that the opening and closing balances are disclosed, and a reader of the accounts could work out the in-year movement.	X

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

Detail	Auditor recommendations	Adjusted?
Restatements disclosures	The updated accounts include a significant level of restatements, mainly linked to St George's but also reflecting other classification adjustments made to statements and notes. The CIPFA Code requires disclosures to explain the nature and amount of any restatements made. The initial version of the updated accounts included a disclosure note, but did not fully meet the Code requirements. Additional disclosures were included in later versions of the accounts. On review of the December 2023 version of the accounts we identified some residual errors/omissions which management has agreed to correct: • PPE note (and the equivalent HRA note) require additional disclosure to highlight the material restatements made to in-year movements • Other changes were also required to some individual disclosures notes to correct some of the disclosures or to add additional disclosure for material restatements – this included the Capital Adjustment Account note, Adjustments Between Accounting Basis and Funding basis note, Financial Instruments note. We also identified some areas where disclosures were not fully compliant with the Code but management have declined to amend. We are satisfied that there are no material omissions and that additional disclosures may risk cluttering the accounts without enhancing a reader's understanding: • Disclosures for the restatement of the Financing and Investment Income and Expenditure line of the CIES only cover changes to net figures rather than gross, so do not fully meet the requirement to disclose the change to every line item. • There are various uncertainties in the Cash Flow Statement restatement disclosures which are linked to uncertainties in our testing of the Cash Flow Statement (as reported earlier in this report). The Note 14.0 disclosures are consistent with the Cash Flow Statement but we have been unable to fully verify which adjustments relate to St George's and which to 'other'. • For restatements within some disclosure notes (such as the EFA and related notes), the Code requirement to disclose the amount of the change to every financial statement line item is not fully met and management have not made further changes. However, in most cases in our view the footnotes plus the disclosures elsewhere in the accounts provide sufficient information for a reader to understand the changes made. **Management response** Disclosures have been enhanced to more fully meet the Code requirements. The points in the final three bullet points above have not been adjusted for. Additional disclosure or additional work to investigate differences would not be useful to a reader's understanding, or would risk cluttering the accounts.	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

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Detail	Auditor recommendations	Adjusted?
Expenditure and Income by Nature note	In addition to the amendments highlighted in our previous Audit Findings Report, management identified some errors in classification between grants and other fees and charges, which have been corrected. A prior period adjustment has also been recognised - as the adjustments are not material, this is not required under the CIPFA Code/IAS 8. We identified some presentational errors/difference in the updated December 2023 version of the note: • the £3.5m adjustment for St George's disposal was incorrectly adjusted against the gains/losses on disposal line but should have been adjusted against the other service expenses line. • we were unable to fully reconcile the adjustments to other service expenses or fees and charges, with unexplained differences remaining of c£200k for each line for 18/19 and £100k for 19/20, but with no impact on the overall net position. Management confirmed that there was £89k manual adjustment in 18/19 for income that could not be allocated, with a similar adjustment in 19/20. We have not verified this so there is a presentational uncertainty which only impacts this note. **Management response** Management has agreed to correct the presentation of the note. Although restatement is not required, management has chosen to restate prior year figures for consistency purposes.	✓
Revaluation Reserve Note	We identified some remaining differences in the updated December 2023 version of the note: • 2019/20 the adjustments relating to St George's and leisure centre valuations were put against the upwards revaluation line but are downward revaluations. £5,872k gross impact (net impact nil). • £141k difference in the note compared to our expectations based on journal adjustments reviewed, impacting the historic cost depreciation line. A similar difference was noted in the Capital Adjustment Account so this impacted the closing balances of the individual reserves, though with no net impact on unusable reserves. **Management response** Management have agreed to amend the accounts for these errors.	✓

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

Detail	Auditor recommendations	Adjusted?
Capital Adjustment Account note	A number of presentational errors in the restated 2018/19 figures were identified in our initial audit work which required correction. We identified some remaining differences in the updated December 2023 version of the note: • 2019/20 CAA note - 'Revaluation Reserve depreciation' line includes the HRA revaluation adjustment, as this is material it should be presented separately (as it is in the Revaluation Reserve note) • £141k difference as noted for Revaluation Reserve note above **Management response** Management have agreed to amend the accounts for these errors.	✓
Adjustments Between Accounting Basis and Funding Basis note	A number of presentational errors in the restated 2018/19 figures were identified in our initial audit work which required correction. We identified some remaining differences in the updated December 2023 version of the 2018/19 note, with unexplained differences of £115k impacting General Fund and HRA revaluation and disposal lines. These differences are presentational only with no impact on total adjustments to General Fund/HRA or unusable reserves. **Management response** Management have made the majority of amendments required, but have declined to explain or amend the residual £115k differences described above, so these reflect a presentational uncertainty.	Partial
Expenditure and Funding Analysis (EFA) and related notes	We identified one remaining difference in the updated December 2023 version of the note: the 2019/20 EFA note (14.1.3 note 3 to EFA) had not been correctly adjusted for the changes to the EFA for adjustments between accounting and funding basis. The note should be consistent with the EFA. **Management response** Management have agreed to amend the accounts for this error.	✓
Events after the reporting period	We identified an additional non-adjusting event after the reporting period relating to the current situation with the council's investment in the Lothbury Property Fund. **Management response** Management have agreed to add an additional disclosure	✓

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

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Detail	Auditor recommendations	Adjusted?
Audit fees note	Amendments were required to the footnote to reflect subsequent PSAA approval of the audit fee variation and to make it clear the fee related to 2019/20 rather than 2018/19. **Management response** Management have agreed to amend the accounts for this error.	✓
Grant Income	The draft accounts did not include a grants disclosure note so did not fully meet the requirement of Code 2.3.4.1 to disclose 'the nature and extent of grants and contributions and donated assets recognised in the financial statements' **Management response** Management have agreed to include a new disclosure note. The audit team have confirmed that the proposed disclosure is consistent with underlying records.	✓
Financial Instruments Note	£793k in interest income from financial assets measured at FVTPL was incorrectly presented under net gain/loss rather than as interest income, this should be corrected. As part of this correction management also chose to restate the prior year figures for this and for the error in presentation of gains/losses reported previously in our Audit Findings Report. As the adjustments are not material, this is not required under the CIPFA Code/IAS 8. The disclosures for financial assets was missing the totals figures for investments for current and prior years, which were incorrectly shown as nil. **Management response** Management has agreed to correct the presentation of the note. Although restatement is not required, management has chosen to restate prior year figures for consistency purposes.	✓
Other information	In our review of the other information published with the financial statements we identified a number of hyperlinks which no longer worked. These should be removed or updated. **Management response** Links have been removed or updated as appropriate.	✓

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	99,418*
Total audit fees (excluding VAT)	**£48,536**	**£99,418**

*Our interim fee variation of £42,104 was reported in the Audit Findings Report and has now been approved by PSAA.

We have proposed a further fee variation of £16,278 for work completed since 31 July 2023, which is subject to PSAA approval (please see page 15). This is included in the 'final fee' shown above.

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

The amended accounts also include a disclosure confirming the interim fee variation.

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.

Fees

We confirm below our final fee proposal based on work completed on the audit.

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	Response to Financial Reporting Council (FRC) requirements
Enhanced audit procedures for Pension Liabilities (IAS19)	1,750	Response to Financial Reporting Council (FRC) requirements
Raising the bar	2,500	Response to Financial Reporting Council (FRC) requirements
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. This variation has been approved by PSAA.**
Valuations and depreciation errors and adjustments	8,684	This reflects additional audit work required due to the various errors and adjustments related to PPE valuations and depreciation. Given the nature of these adjustments, various areas of the accounts were impacted and additional audit work was required to obtain sufficient assurance over each of these areas. This also includes additional audit time linked to the qualification for the HRA revaluation reserve.
PPE valuations – use of auditor's expert valuer (St George's revised valuation)	2,200	This reflects the cost of engaging an auditor's expert valuer as part of our work on PPE valuations, due to the council's decision to obtain new valuations for the St George's asset
Cashflow statement	1,403	This reflects additional audit work required due to various changes to the cashflow statement
Disclosure amendments due to errors	3,991	This reflects additional audit work required due to the relatively high level of amendments required to disclosures
Revised audit fees 2019/20 (excluding VAT) – final	**99,418**	**This reflects the total for work completed during the course of the audit including the scale fee. This variation is subject to approval by PSAA.**

Audit opinion

We anticipate we will provide the Council with a qualified audit report.

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, notes to the financial statements, and Accounting Policies, Standards and Critical Judgements. 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 matters 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

St George's Shopping Centre

Note 13.36 to the financial statements discloses the Authority's critical judgement in respect of its accounting policy for the financing of the regeneration of the St George's Shopping Centre and associated properties. The liability for this financing is included in the financial statements with an amortised cost of £24.5 million as at 31 March 2020, and £24.1 million as at 31 March 2019. We disagree with the Authority's judgement that only those direct entries which flow through its records in respect of this matter should be reflected within its financial statements. In our judgement, the substance of the transactions should determine whether they fall within the Authority's accounting boundary, rather than whether the Authority was a party to those transactions. .

Furthermore, we were unable to obtain sufficient appropriate audit evidence in respect of the amortised cost of the liability recognised in the financial statements. This was because the Authority was not able to provide us with sufficiently detailed information in respect of the transactions that took place between the Authority's commercial partners regarding this matter.

For this reason, we were also unable to conclude on the reasonableness of the Authority's accounting treatment for an embedded prepayment option (which the Authority has deemed to be closely related to the host liability contract and which therefore has not been accounted for separately) and the appropriateness of Retail Price Index assumptions included in the calculation of the effective interest rate. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary in respect of this matter. Any such adjustments could have had an impact on the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement and related notes including disclosures relating to the fair value of the financial instrument and the prior year restatements relating to this matter.

Audit opinion

Revaluation Reserve

Note 14.15.1 to the financial statements discloses the balance and movements in the Authority's Revaluation Reserve. The Authority accounted for all revaluation gains/losses relating to council dwellings by making an adjustment between the Capital Adjustment Account and the Revaluation Reserve. In our judgement, the Authority should have accounted for all revaluation gains/losses relating to council dwellings through either the Surplus/Deficit on Provision of Services or Other Comprehensive Income and Expenditure as appropriate, and restated prior year comparatives, including opening balances, accordingly. The Authority have not adopted the accounting treatment that we believe to be appropriate because they have not undertaken, and will not undertake, the work required to do so. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary in respect of this matter. Any such adjustments could have had an impact on the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Cashflow Statement and related notes, including Note 14.15 on Unusable Reserves, and prior year comparatives.

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 qualified 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 Notes 14.6, 14.9, 14.23 and 14.27 to 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 properties), 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 notes 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 to inform opinions of value. 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.

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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.

As described in the basis for qualified opinion section of our report:

- our audit opinion is qualified because of disagreement over whether transactions between the Authority's commercial partners in respect of the St George's Shopping Centre and associated properties fall within the Authority's accounting boundary. We have concluded that other information in respect of this matter is materially misstated for the same reason
- we were unable to satisfy ourselves concerning:
    - the amortised cost of the liability recognised in the financial statements relating to St George's Shopping Centre and associated properties and
    - the reasonableness of the Authority's accounting treatment for an embedded prepayment option and the appropriateness of the Retail Price Index assumptions included in the calculation of the effective interest rate

  We have concluded that where the other information refers to these matters, it may be materially misstated for the same reason
- we were unable to satisfy ourselves concerning the accounting for revaluation entries related to council dwellings. We have concluded that where the other information refers to these matters, it may be materially misstated for the same reason.

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 matters 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

Audit opinion

- 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.

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.

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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.

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.

Audit opinion

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]