

19 November 2024

Councillor Gavin Larkins  
Chair, Finance and Audit Committee  
Gravesham Borough Council  
Civic Centre  
Windmill St  
Gravesend  
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Grant Thornton UK LLP  
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Dear Gavin,

**Gravesham Borough Council: Conclusion of the audit for 2020/21, 2021/22 and 2022/23 – letter to those charged with governance on the application of the local authority backstop**

As you will be aware, on 5 September 2024 the government published in draft the Accounts and Audit (Amendment) Regulations 2024. These Regulations, which were approved on 30 September 2024, set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code, which was issued on 14 November, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Director (Corporate Services), and for reasons which I set out in more detail below, it will not be possible for us to complete our audit for 2020/21, 2021/22 and 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion for each of these years. I attach a draft copy of these disclaimers for the attention of the Finance and Audit Committee.

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

**Outcome of our audit for 2020/21, 2021/22 and 2022/23 – Disclaimer of the opinion on the financial statements**

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion for each of the three financial years. In addition, in our Audit Report for the year ended 31 March 2020, we modified our opinion due to two matters, and the ongoing impact of this modification will be reflected in our Audit Reports for 2020/21, 2021/22 and 2022/23. We have attached the draft wording of our Audit Reports for your information.

The main reason for the application of the backstop is that we have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's financial statements for the years ended 31 March 2021, 31 March 2022 and 31 March 2023 as a whole are free from material misstatement. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. We therefore plan to issue a disclaimer of opinion on each of the financial statements. This enables the Authority to comply with the requirement in the

**Chartered Accountants**

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Regulations that they publish audited financial statements for the year ended 31 March 2021, 31 March 2022 and 31 March 2023 by the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

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

We undertook our Value for Money work for the years ended 31 March 2021, 31 March 2022 and 31 March 2023 and have reported the outcome in a combined Auditor's Annual Report dated April 2024.

The key findings include:

- Year ended 31 March 2021 – no significant weaknesses in arrangements identified, two improvement recommendations made (with respect to the capital programme financial monitoring and procurement)
- Year ended 31 March 2022 - no significant weaknesses in arrangements identified, two improvement recommendations made (with respect to the capital programme financial monitoring and procurement)
- Year ended 31 March 2023 - one significant weakness in relation to financial sustainability as follows:
  - The Council financial position is becoming significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures. A failure to properly develop and risk assess savings schemes with appropriate contingencies will further intensify this pressure. We recommend that councillors and senior officers of the Council must continue to recognise the severity of the Council's medium term financial outlook and the need to take prompt, effective and far-reaching action to restore a sustainable financial position in the medium term.

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

We have nothing to report in respect of the above.

### **Independence**

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 and consider that an objective reasonable and informed third party would take the same view. 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. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

### **Management letter of representation**

We have asked management to provide a letter of representation in respect of each of the financial statements covering 2020/21, 2021/22 and 2022/23. These will be tabled as a separate agenda item.

### **Looking ahead**

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

Yours sincerely

***Paul Dossett***

For Grant Thornton UK LLP

CC: Director (Corporate Services)

Attachments: Draft Disclaimer of Opinion 2020/21, 2021/22 and 2022/23

## Appendix

### Responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Gravesham Borough Council. We draw your attention to both of these documents.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Finance and Audit Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Finance and Audit Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

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

### Audit Plan

Due to delays in the completion of prior year audits, we were unable to issue an audit plan in respect of these audit years.

### 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.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for the audits of the years ended 31 March 2021, 31 March 2022 and 31 March 2023.

### Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

### Going Concern

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

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it

may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

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

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

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

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

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

### **Design effectiveness of internal controls**

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

We have nothing to report in respect of the above.

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

We are required to confirm the following:

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

### **Matters in relation to the Group audit**

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

- The scope of work on components

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

We have no matters to report in this respect.

#### **Audit fees and non audit fees**

PSAA set scale fees for these audits as follows:

<b>Audit Year</b>	<b>Scale Fee £</b>
2020/21	41,036
2021/22	43,836
2022/23	43,836

Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for these audit years.

We have also undertaken the following non audit work covering the audit years from 2020/21 to 2022/23 (and up to the expected date of the disclaimers of opinion):

<b>Non-Audit Service</b>	<b>Final Fee £</b>
Certification of Pooling of Housing Capital Receipts return	
2020/21	5,000
2021/22	7,500
2022/23	10,000
2023/24	10,000
Certification of Housing Benefits claim	
2020/21	37,000
2021/22	45,000
2022/23	45,000

<b>Audit Year</b>	<b>Total Audit scale fee and Non-Audit Fees as above £</b>
2020/21	83,036
2021/22	96,336
2022/23	98,836

The fees do not reconcile to the financial statements due to the elapsed time and inclusion of accruals. Where they do not, we have provided a reconciliation.

	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Fees per financial statements			
- External audit	41	97	80
- Grant claims	23	37	53
- Other	5	42	18
Impact of prior year accruals	4	0	0
Additional costs accrued by the Authority relating to prior years	0	(42)	(18)
Estimated accruals for additional audit fees made by the Authority	0	(53)	(36)
Additional fees for non-audit services finalised in later years	10	15	2
<b>Total fees per above</b>	<b>83</b>	<b>96</b>	<b>99</b>

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total scale fees for the audits of £41,036/£43,836/£43,836 and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.