Gravesham Borough Council

Finance and Audit Committee

Wednesday, 8 November 2023

Dear Councillor

You are advised that the attached documents form part of the main agenda papers for this meeting.

Please ensure you bring them with you to the meeting.

Yours faithfully

S Walsh
Head of Democratic Services

List of documents attached

This page is intentionally left blank

Agenda Item 13

Classification: Public
Key Decision: No

Gravesham Borough Council

Report to: Finance and Audit Committee

Date: 8 November 2023

Reporting officer: Paul Dossett, Partner
Grant Thornton UK LLP

Subject: The Audit Findings Report for Gravesham Borough Council – Year end 31 March 2020

Purpose and summary of report:

To provide Members with an update on the findings of the council's External Auditor, Grant Thornton UK LLP, from the ongoing audit of the council's financial statements and arrangements for securing Value for Money for the year ended 31 March 2020.

Recommendation:

1. The Finance and Audit Committee is invited to review and note the report.

Key Implications:	
Item	**Implications**
Legal	There are no specific legal matters arising from this report.
Finance and Value for Money	The report from Grant Thornton comments upon progress in concluding the Council's Financial Statements and Value for Money audits for the year ended 31 March 2020.
Corporate Plan	There are no direct implications for the Council's strategic priorities.
Climate Change	No direct implications

1. Background to the report

1.1. The report at Appendix One provides an update on the progress and current findings of the External Auditor, Grant Thornton UK LLP, on the Council's financial statements for the year ended 31 March 2020. The report highlights the key matters currently identified as arising from the statutory audit of the Council's financial statements for the year ended 31 March 2020 and is used to report the audit findings to management and those charged with governance in accordance with the requirements of

International Standard on Auditing (UK & Ireland) 260 and the Local Audit & Accountability Act 2014.

2. Appendices

2.1. The following documents are to be published with the report:

- Appendix One - The Audit Findings Report for Gravesham Borough Council – Year end 31 March 2020

3. Background Documents

3.1. There are no background papers to this report.

Lead Officer: Lisa Nyon, Assistant Director, Corporate Services.

Email: lisa.nyon@gravesham.gov.uk

Secondary Implications	
Risk Assessment	No direct implications
Data Protection Impact Assessment	*A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.*
	a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data? A definition of each type of data can be found on the Information Commissioner's Office website via the above links. N/A
	b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A
	c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk. N/A
Equality Impact Assessment	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. No decision – paper is for information only.
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. No decision – paper is for information only.
	In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above
Crime and Disorder	No direct implications
Digital and website implications	No direct implications
Safeguarding children and vulnerable adults	No direct implications

This page is intentionally left blank

Grant Thornton

The Audit Findings for Gravesham Borough Council

Year ended 31 March 2020

November 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

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.	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 is currently still in progress. Our findings are summarised on pages 7 to 27. As at the date of writing (October 2023), we have identified several adjustments to the financial statements that have resulted in a £7.9m adjustment to the Council's Comprehensive Income and Expenditure Statement, and a cumulative reduction of £1.4m to the council's General Fund. These adjustments are still in the course of being audited. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. 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. 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. Our audit is nearing completion, but our work to review the amendments made to the accounts since 2020 is still in progress. 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. Our work to review the revised other information is still in progress. Once this is complete, we will conclude whether, other than the matter referred to above, the other information to be published with the financial statements is consistent with our knowledge of your organisation.

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

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the Council .

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.

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.

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.

Management were able to provide us with the draft financial statements for audit on 7 July 2020 well in advance of the deadline.

The audit was subsequently delayed due to other matters which are covered in more detail later in this report.

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.

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.

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.

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').	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. 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. 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. We therefore anticipate issuing a qualified 'except for' Value for Money Conclusion. Our findings are summarised on pages 28 to 39.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • 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.	We have not exercised any of our additional statutory powers or duties. We have not received any questions or objections in relation to the Council's financial statements. 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.

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:

- Detailed testing of the updated accounting treatment for St George's, including accounting for the Aviva loan, the valuation of the shopping centre asset and related accounting entries and disclosures for both 2018/19 and 2019/20
- Review of all amendments to the accounts to ensure that these are complete and accurate
- Completing any additional audit testing required for changes to the accounts that had not been audited by the original audit team
- Manager and engagement lead quality review of audit files and resolution of any arising queries
- Finalisation of work in respect of subsequent events
- Agreement of your management representation letter
- Receipt and review of the final set of approved financial statements
- 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 8 November 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

Page 13

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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	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
Fraudulent revenue and expenditure recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: • 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. **Therefore we do not consider this to be a significant risk for Gravesham Borough Council.** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. 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. Our audit work has not identified any other issues in respect of improper revenue recognition.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls 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. 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. 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.	In response to this risk we have: • 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. 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. 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. To date, no other 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
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.	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	*(continued from previous page)* ***Material valuation uncertainty*** 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. ***HRA revaluation reserve*** 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. 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. Our work to review the accounting treatment for this adjustment is still in progress. However, our understanding is that it has been transacted in-year as an adjustment between the Capital Adjustment Account and the Revaluation Reserve. 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. 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. 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. ***Other areas*** Additionally, as part of the revised accounting for St George's, management have obtained revised revaluations for the shopping centre asset. Our work to review these valuations is still in progress. Subject to the satisfactory resolution of the outstanding matters set out on page 6, no other material issues have been identified from our work to date. Should any further issues arise that require reporting, we will do so before issuing our auditor's opinion.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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.	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
Accounting for assets and liabilities in respect of St George's shopping centre 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. 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. 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.	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. 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. 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. 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. ***Accounting for the liability*** 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. 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. 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). *(continued)*

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	*(continued from previous page)* 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. Our work to audit the EIR and amortised cost calculations is still in progress. This is based on the principal amount of £23.5m as assessed by management. As above, we have been unable to obtain sufficient evidence to verify this amount is accurate and this also impacts on the calculation of the EIR and related accounting entries which are therefore also affected by this uncertainty. ***Embedded derivative*** 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. 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. We have considered the assessment of discounted cashflows before and after the prepayment, although our detailed audit work is still in progress. 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. 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. ***Accounting for the asset*** 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. *(continued)*

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	*(continued from previous page)* 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. We challenged this as part of the original audit, and the valuations were revised. Following the change in accounting treatment for the Aviva transaction the council decided to obtain further revised from a new valuer as at 31 March 2019 and 31 March 2020 which are reflected in the revised accounts. Our work to audit the revised valuations is still in progress. ***Prior period adjustment*** The changes noted above have resulted in a significant prior period adjustment to correct the 2018/19 entries. Management have also included a disclosure to meet the requirements of IAS 8 to disclose the nature and amount of the restatements. Our work to audit the accounting adjustments and related disclosures is still in progress. ***Amendments*** The amendments made by management are set out in Appendix B. These are still subject to audit.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £326.24m	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. 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). 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.	• 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 and this work is in progress. • 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 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 (*subject to completion of audit work*)

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	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. 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. 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.	• 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 part of the revised accounting for St George's, management have obtained revised revaluations for the shopping centre asset using a new valuer (Colliers), as detailed on pages 14 to 16. Our work to review these valuations, including consultation with our auditor's expert Montagu Evans, is still in progress. • 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.	● Green following the amendments to the accounts (*subject to completion of audit work*)

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	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. 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). 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.	• 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
- 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
Net pension liability – £62.67m	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. 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. 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.	• 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 (see assumptions table below) • 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.	● Green

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	●

Page 26

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) 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).	• 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 s 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	• 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

- 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
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.	• 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 (*subject to completion*)
Other accruals and estimates	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts.	• 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

- 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
St George's – Aviva loan £24.5m	Following the revised accounting for St George's, management have accounted for a loan from Aviva at amortised cost, rather than as a lease. Management's judgement is that the original principal amount of the loan was £23.5m reflecting the cash received by the council. 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. 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.	• We agree that in substance the transaction is a financing arrangement and not a lease • Our work to audit the EIR and related entries is still in progress. 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 have raised a challenge with management about the adequacy of disclosures of critical judgements relating to the accounting treatment for this transaction	Red

Page 29

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	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. The Council's MRP policy is set out in its Treasury Management Strategy for 2019/20: • 'Regulatory method' for capital expenditure before 1 April 2008 or Suported Capital Expenditure after that date • Asset life (equal instalment method) for unsupported borrowings after 1 April 2008 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).	• Following the change in accounting for St George's, the council has revisited its MRP calculations and its Capital Financing Requirement (CFR), and our audit work to review the amendments is still in progress. • Based on our initial audit work in 2020, 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. 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	● Green (*subject to completion*)

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

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. Our work to revisit the council’s going concern assessment in 2023 is in progress and will include consideration of updated cash flow forecasts and the latest medium term financial plan. We will also consider the additional pressure caused by the costs relating to the St George’s transaction.

Based on our work to date we have not identified any material uncertainties requiring disclosure. We anticipate that 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 will be requested from the Council, the wording of which will be confirmed at a later date.
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. At the time of writing this report, on 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	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. As the accounts have been significantly updated, our other information procedures also require updating and this is still in progress. 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.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 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. Once this is made available we will update our review. We have not applied any of our statutory powers or duties.
Specified procedures for Whole of Government Accounts	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.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Gravesham Borough Council in the audit report.

Value for Money

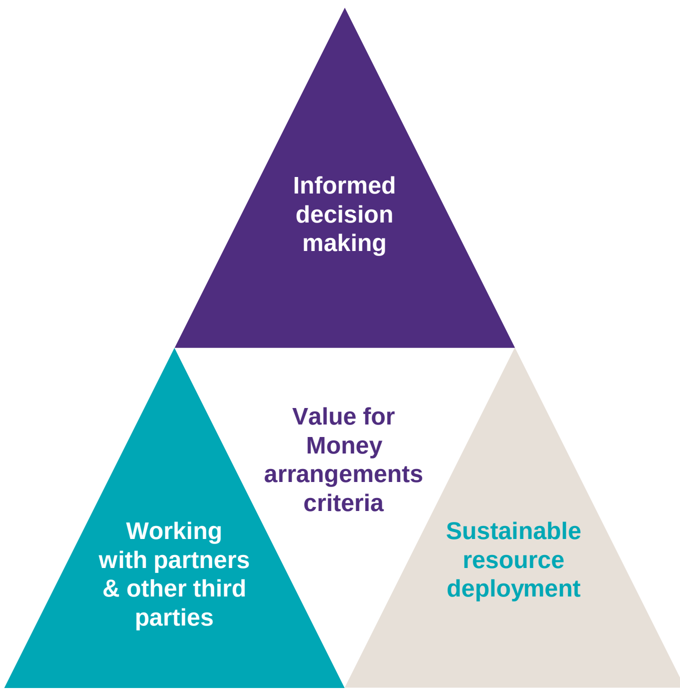
Background to our VFM approach

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 is reported as a separate agenda item.

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 indictors 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

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, except for the council's arrangements in relation to St George's shopping centre.

The text of our report, which will confirm this will be provided at a later date following internal consultation processes.

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
Medium term financial viability *As reported in the audit plan in 2020:* 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). 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. We will review your arrangements for setting the Medium Term Financial Plan and examine underlying assumptions and dependencies for robustness.	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. **Outturn for 2019-20** 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. 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. 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.

Page 36

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability continued	**2020-21 budget** <u>Original budget</u> 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 . 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. <u>Impact of Covid 19</u> 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.

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability continued	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**	**Decile - within type** (out of 188 authorities)	**Decile - all LAs** (out of 339 authorities)
		(1 = Most Risk, 10 = Least Risk)	
Financial resilience and commitments			
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 continued	**Medium-term financial planning** 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. 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. 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. 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. 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.

Value for Money

Significant risk	Findings and conclusion
Medium term financial viability continued	**Sustainability of reserves** 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	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.

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
Investment risk *As reported in the audit plan in 2020:* 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. 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. 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. We will review your arrangements for identifying, assessing and mitigating the risk associated with these investments.	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. **Multi-Asset Funds and Property Funds** 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%) . 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. 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 . **Commercial property holdings** 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%.

Value for Money

Significant risk	Findings and conclusion
Investment risk continued	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 . **Governance** 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. **2019/20 onwards** 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. The Charter 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 . Greenwich Investment Opportunity 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 .

Value for Money

Significant risk	Findings and conclusion
Investment risk continued	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. 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). 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. 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. We understand that delegated authority was granted but that ultimately this investment was not taken forward by the council. **Conclusion** 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. 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.

Value for Money

Significant risk	Findings and conclusion
The Council's arrangements in relation to St George's Shopping Centre 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. We have identified an additional significant VFM risk relating to the council's arrangements in relation to this transaction. 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.	Our detailed findings are set out in a separate report which is included as a separate agenda item. **Conclusion** 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: • 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. We therefore anticipate issuing a qualified 'except for' Value for Money Conclusion.

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 - annual	21,800*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £21,800* in comparison to the total fee for the audit of £48,536 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. *This fee is the 2018/19 core price, which should only be used indicatively. It does not include the cost of any additional '40+' work.
Certification of Housing Capital Receipts Grant - annual	5,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £48,536 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. *This fee is the 2018/19 core price, which should only be used indicatively.

***We carry out these non-audit services on an annual basis, the figures shown above reflect the fees for 2018/19 as an indicative amount. We will confirm the fees charged/chargeable for all subsequent years in a later version of this report.**

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 our recommendations with management. This will be done once the audit is nearer to completion and management responses will be requested at that point. 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	**St George's shopping centre accounting** The revised accounting has resulted in significant adjustments to the accounts including a restatement of prior year comparatives.	Where any complex arrangements are entered into, ensure that appropriate accounting advice is obtained if the council do not have sufficient expertise in-house. **Management response** TBC
● Medium	**Manual adjustments** We identified some manual adjustments when mapping the Trial Balance to the accounts. Manual adjustments increase the risk of error. 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. 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.	Review the debtors and creditors process in order to ensure the accuracy of any manual adjustments made between debtors and creditors. Where possible, ensure that all accounts mapping is included on the ledger to reduce the need to make manual adjustments. **Management response** TBC
● Medium	**IT General Control - Superuser Admin access to Northgate** Superuser access to Northgate has been identified with users who are involved in the business process. 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.	Ensure there is a regular, documented review of superuser admin access to ensure no inappropriate access has been made. Ensure there is a relevant policy in respect of superuser access to reduce the potential risk of fraud. **Management response** TBC
● Medium	**Review of payments near year end** 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.	A review of payments made in March should be included as part of closedown procedures to reduce the risk of prepayments not being identified. **Management response** TBC

Page 48

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
Low	**Payroll - Control Deficiency of unsigned starter form** 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 that the starter had begun employment on that date. 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.	Ensure all starter forms are signed by both the employee and the manager and have a documented start date. **Management response** TBC
Low	**Review of expert's reports** 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. We also identified some evidence of a lack of challenge over the work of the valuer, including a reliance on Reef for source data.	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. **Management response** TBC
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** TBC

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
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** TBC
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** TBC
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** TBC

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.			
Dr Communities	3,754		3,754
Cr St George's Revaluation Loss	(84,857)		(84,857)
Cr Gain/Loss on disposal	(3,500)		(3,500)
Dr Interest payable	1,573		1,573
Dr Capital Grants and Contributions	294		294
Cr Other Land and Buildings		(9,800)	
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 £795k Cr Unusable Reserves £(83,532k) *These adjustments are still in the process of being audited*			
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
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)	(189)		(189)
Dr Interest payable (CIES)	817		817
Dr Capital Grants and Contributions (CIES)	1,817		1,817
Cr Other Land and Buildings		(9,604)	
Dr Short Term Creditors		184	
Dr Short Term/Long Term Borrowing		67,891	
Dr Capital Grants Received in Advance		12,133	
Dr Revenue Grants Received in Advance		8,700	
Impact on reserves: Dr Usable Reserves £1,415k Cr Unusable Reserves £(81,717k) *These adjustments are still in the process of being audited*			
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	
These adjustments are still in the process of being audited			
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 Other Land and Buildings		(1,165)	
Dr Revaluation Reserve		1,165	
These adjustments are still in the process of being audited			
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)	
These adjustments are still in the process of being audited			
Overall impact	***2018/19: (82,736)*** ***2019/20: 7,948***	***2018/19: 82,736*** ***2019/20 (cumulative): 84,647***	***2018/19: (82,736)*** ***2019/20: 7,948***

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	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 **Management response** Management has agreed to update the financial statements in respect of this related party transaction	✓
Investment properties	Management should add a disclosure to the accounts in respect of the material valuation uncertainty relating to investment properties **Management response** Management has agreed to update the financial statements in respect of this. We will emphasise this material valuation uncertainty in our opinion.	✓
Property, Plant and Equipment	The Council should add an analysis of when assets had been revalued within the PPE note. 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. Surplus assets were incorrectly described as 'other land and buildings'. The disclosure note was also updated to reflect the adjusted misstatements that relate to PPE (including council dwellings and St George's). **Management response** Management has agreed to update the financial statements	✓ - subject to audit
Audit Fees	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. **Management response** TBC	TBC
HRA notes	Note 15.7 Capital Receipts incorrectly labelled the transfer to Capital Adjustment Account as a transfer to Earmarked Reserves, this should be corrected **Management response** Management has agreed to update the financial statements in respect of this.	TBC

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	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. Additionally the amended accounting treatment will require amendments to all related disclosures. **Management response** Management has agreed to update the financial statements	✓ - subject to audit
Capital commitments	The disclosures are incomplete as they exclude commitments longer than 3 years, this should be corrected **Management response** Management has agreed to update the financial statements in respect of this.	✓
Expenditure and Income by Nature	£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. £1.8m relating to revaluations gains/losses was incorrectly classified as Other Service Income. All of these should be corrected, with appropriate disclosure for the restatement. **Management response** Management has agreed to update the financial statements	✓
Critical judgements and estimation uncertainty	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. **Management response** 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	Partial
Other Operating Expenditure and Financing and Investment Income and Expenditure	The notes disclosed net figures, it may be clearer to a reader to separate these into gross income and expenditure **Management response** Management has agreed to update the financial statements in respect of this.	✓

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	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. **Management response** Management has agreed to update the financial statements	✓
Cashflow Statement	The figure for purchase of investments appeared to be incorrect. Adjusted misstatement elsewhere in the accounts also have an impact on the Cashflow Statement which has therefore been updated by management. **Management response** Management has agreed to update the financial statements in respect of this.	✓ - subject to audit

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 See also the adjusted misstatements. As detailed on page X, 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. 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).	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 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. 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.	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	***See overleaf***	***See overleaf***	

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.			TBC
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			TBC
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).			
Cr CIES	(164)		
Dr Creditors		164	
Misclassification of Debtors/Creditors			TBC
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)			
Dr Debtors	81		
Cr Creditors		81	
Overall impact	***See overleaf***	***See overleaf***	

Page 58

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 but an uncertainty
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
Potential impact of the McCloud judgement The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. 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. 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 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.	The figures provided by the actuary were an estimate, and not a formal actuarial valuation. 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. This has been corrected as part of the actuarial valuation exercise in 2019/20.
Operating expenditure cut-off 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. 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.	The potential misstatement is an extrapolated error therefore it is not appropriate to amend the financial statements for it. It is worth noting our testing identified a similar error in the current year, as set out on the previous page.

Fees

We confirm below our final fees charged for the audit and 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 next page). We anticipate requesting a further variation for audit work completed after this date.

The proposed fees reconcile to the financial statements as follows. However, we have requested that the accounts be amended to incorporate the current fee variation.

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

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Certification of Pooling of Housing Capital Receipts return 2019/20, 2020/21, 2021/22, 2022/23	TBC	TBC
• Certification of Housing Benefits claim 2019/20, 2020/21, 2021/22, 2022/23	TBC	TBC
Non-Audit Related Services	N/A	N/A
Total non- audit fees (excluding VAT)	**TBC**	**£TBC**

- We carry out these non-audit services on an annual basis. We will confirm the fees charged/chargeable for each of the relevant years in a later version of this report.

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	21,630	Additional audit work relating to the accounting for the St George's transaction
Value for Money	18,348	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	**103,118**	**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.**

grantthornton.co.uk