Gravesham Borough Council indicative audit plan*

Year ending 31 March 2024

Gravesham Borough Council

May 2024

**As a result of the gap in available financial statements, we may revisit some of our risk assessment in light of new information obtained as part of the audit process.*

The work on backstop arrangements is also TBC, and therefore the scale and scope of work required on opening balances is not yet known.

For these reasons, our audit plan is indicative, and a finalised plan will be confirmed in due course.

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters

Local context

Gravesham Borough Council [GBC) is administratively based at the Civic Centre on Windmill Street in Gravesend and covers six civil parishes being: Cobham, Higham, Luddesdown, Meopham, Shorne, & Vigo. As one of the largest employers in the borough it typically employs up to 550 employees at any one time. Gravesham's neighbouring districts are Dartford, Sevenoaks, Tonbridge and Malling, and Medway, plus Thurrock on the opposite side of the river Thames. It has an land area of 38 square miles (99 square km) and is situated in north-west Kent. It is one of the 12 districts with borough status where Kent County Council is the administrative county.

This year is the 50th anniversary of GBC since merging Gravesham Borough Council, Northfleet Urban District Council, and parts of Strood Rural District Council in 1974. Its formation saw the end of more than 400 years of the Borough of Gravesend. 2024 is also the 200th anniversary of the Gravesend RNLI and 100th anniversary of Gravesend Historical Society. Historically, Gravesham was an ancient borough originally referred to as "Gravesend and Milton" when it was incorporated in 1568 by Elizabeth I. The borough was later reformed in 1836 to become the municipal Borough of Gravesend.

The Council provides district-level services (county-level services such as social care remain the responsibility of Kent County Council). The more rural parts of the borough are also covered by civil parishes, which form a third tier of local government. Since 2023 the council has been under Labour majority control, and comprises of 39 councillors, representing 17 wards. The full council are chaired by the Mayor of Gravesham and meet five times each municipal year. As standard there is a 'Leader and Cabinet' system and currently this assigns the following portfolios to six members appointed by the Leader of the Executive:

- Leader Portfolio
- Strategic Environment Portfolio
- Operational Services Portfolio
- Housing Service Portfolio
- Community & Leisure Portfolio
- Performance and Administration Portfolio

Key matters

Local context

To deliver quality and efficient services Gravesham Borough Council has demonstrated their need to understand the community that they serve. This includes establishing the scale of need and inequality in Gravesham, so that the council can effectively plan their services, target resources and design interventions with the greatest impact for the local community at the best possible value.

The Gravesham Community Profile forms a key part of the evidence base on which the council bases its Corporate Plan and objectives. This includes the following headlines:

- 106,900: smallest population in Kent.
- 10.8 per hectare: 3rd highest population density in Kent.
- 31.7%: residents from an ethnic minority group - 2nd highest in Kent.
- 20.4%: children living in relative low-income families - 4th highest in Kent.
- 6%: highest rate of housing over-occupancy in Kent.
- 227: five-year average net housing builds - lowest in Kent.
- 9.1 years: inequality of average male life expectancy between most and least deprived areas.
- 4.6 years: inequality of average female life expectancy between most and least deprived wards.
- 62.6%: businesses surviving three years or more - 5th highest rate in Kent.
- 61.5%: lowest rate of physically active adults in Kent.
- 7.2%: lowest density of knowledge economy jobs in Kent.
- 4.3%: 2nd highest rate of unemployment in Kent.
- 58.1%: residents holding NVQ 3+ qualification - below Kent average.
- 101: incidents of crime per 1,000 residents - 3rd highest rate in Kent.

Read the full Community Profile here.

In November 2023, central government identified Gravesham as a priority 1 area for levelling-up, with this category representing places deemed in most need of investment through this Fund. Click here for more detail on the Central Government national ranking of local authorities.

Key matters

Local context

As with many other council's nationwide, Gravesham Borough Council (GBC) is currently under significant financial pressure, particularly driven by increasing demand for temporary accommodation and inflation, including higher energy costs. Over the last few years the Council has been focused on reducing its cost base to accommodate the limited growth in funding made available from Central Government as it emerged from the exceptional pressures of the COVID-19 Pandemic and the winding down of the additional COVID grant funding from government.

As of 2023/24, Budget gaps are emerging with the forecast budget gap for 2023/24 being managed through approval of one-off use of reserves. The 2024/25 budget is set with further significant reliance on now depleted reserves recognising that unless further savings are delivered, reserves will now go below the recommended minimum level per Council strategy by the 2024/25 year end. The Council has implemented a significantly more ambitious savings programme to manage the position. However, homelessness costs are still rising overall due to demand, despite cost per unit coming down with efficiencies made.

The Council has now come to an agreement with Aviva Investors to exit from the St Georges deal. This carries a significant capital repayment cost, however the arrangement allows the cost to be defrayed over a longer period and the impact on the revenue budget has been minimised. The Council reports that the St Georges Centre is now almost fully occupied and income is expected to recover, albeit still significantly below the levels projected in the re-development business case. Saving plans are being expedited and are more substantial in early years of the MTFS.

A new contractor in process of being appointed for the Charter development and although there is a negotiation over the funding, the Council is confident that the return on investment can be protected or improved.

Key matters

Creation of new subsidiaries - Rosherville

In January 2020, GBC set up Rosherville Limited with the intention that this entity would operate as a business, offering services to the borough and delivering commercial services whilst exploring new possibilities for developing sustainable businesses. With this being a separate company, the perception is that there is more flexibility available to maximise opportunities than what a Local Authority might be able to progress on a stand-alone basis. To help facilitate this, three additional wholly owned subsidiaries were subsequently incorporated by the Council with Rosherville Property Development Limited (RPDL) and Rosherville Servicing Limited created in May 2020 and Rosherville Repairs & Maintenance Limited created in April 2022.

Rosherville Property Development Limited (RPDL) has in place a development agreement with Reef Estates for the regeneration of Gravesend Town Centre through the Charter project. Which will provide 242 high quality homes in Gravesend Town Centre, acting as a catalyst for increasing housing delivery in the borough.

RPDL as of 31 March 2023 held stock worth £38.387million and had fixed assets valued at £2.020million. Sums owed to group undertakings being Gravesham Borough Council amounted to £25.207million reflecting the progress being made for the Charter Project. The worth of assets [tangible fixed assets, stock, WIP and cash] held on the balance sheet for these subsidiaries as of 31 March 2023 exceeded the value of group sums owing to the Council. As loans to group companies cannot feasibly be repayable on demand, these assets are effectively available to GBC as collateral through full shareholding entitlement. Shareholding funds reported for RPDL for the same period were £15,832,707. The other subsidiary entities had no sums owing to the Council based upon the last financial accounts prepared up to this point as of 31 March 2023.

As part of our audit risk assessment, we have deemed the transaction for the Charter Redevelopment project to be significant and of heightened complexity, therefore we have identified this to be a Significant Risk. See page 20 where we document our planned response to address this.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Corporate Services as Chief Finance Officer..
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please could the Finance and Audit Committee chair confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Corporate Services Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness. Should the NAO revise the VFM code during 2023/24, these areas of focus may change and this line may need amending for different emphases
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters - continued

Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council. There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– we have rebutted this risk for the council - refer to page 13.
- As 2023/24 will be the first audited financial period that will present the consolidation of the new group structure, we haveidentified a financial statement level significant risk. See page 19 for our proposed response to this risk.

Prior period audits

It is our current expectation that statutory legislation will be passed that will impose a ‘backstop’ date for financial periods 2022/23 and earlier. The effect of the backstop will mean that auditors will be required to issue an opinion on the published draft financial statements regardless of whether the audit is complete. In this scenario, audit opinions will be disclaimed due to the implication of the backstop.

For Gravesham Brough Council, we expect the financial statements audit opinion for 2020/21, 2021/22 and 2022/23 to be disclaimed due to the imposition of the backstop. Therefore, for the financial statements audit of 2023/24, we will need to undertake further audit work in respect of opening balances. At the time of drafting this plan, DLUCH and NAO are working on an approach to any additional work on opening balances. We await the government’s response to the consultation, and once the quantum of work on opening balances is known, we will discuss this your management team. We will then communicate this to you by issuing a final audit plan which will replace this indicative audit plan. See page 52 for details on preparing for the backstop.

The impact of the prior year unaudited accounts is also taken into consideration as part of our judgement on materiality. See page 33 for details.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Gravesham Borough Council ('the Council') for those charged with governance.

Respective responsibilities

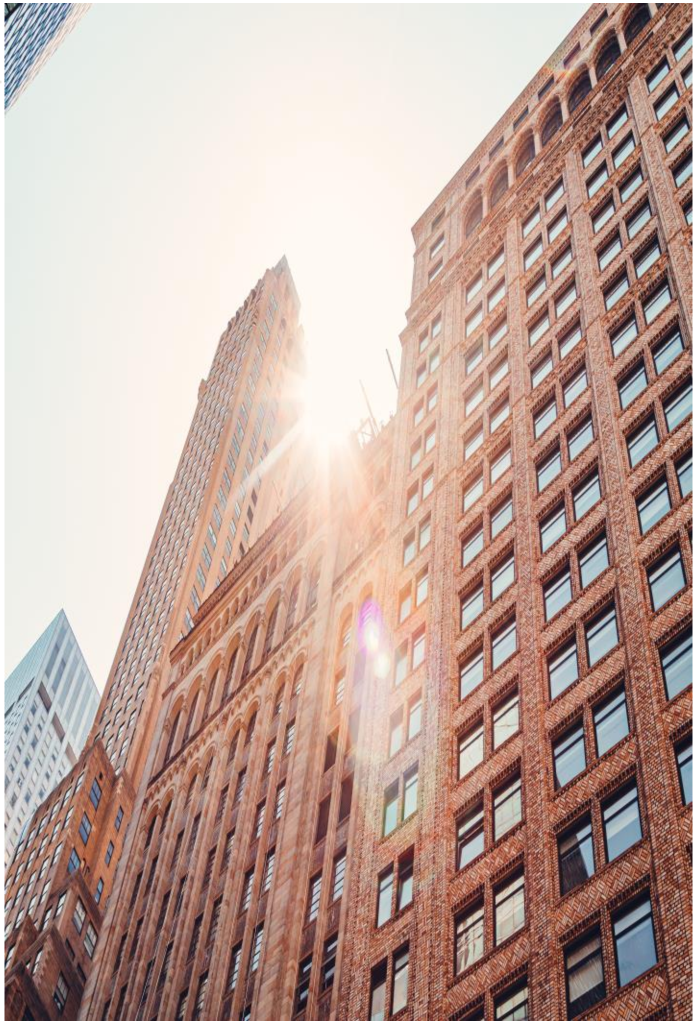
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code, any implications of their revised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

Scope of our audit

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

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

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

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

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.1m for the Council, which equates to 1.4% of your 2020/21 unaudited gross operating costs for the year (excluding HRA revaluations and including interest payable). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

As part of our risk assessment, we have considered the impact of unadjusted prior period errors (where applicable). We have identified the additional risks following the gap in audited financial statements and the 2019/20 qualification, and have therefore set performance materiality at a lower level 65% (PY: 75%).

Clearly trivial has been set at £75k

Introduction and headlines

Value for Money arrangements

Our indicative risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness:

- The severity of the Council's medium term financial outlook requires prompt, effective and far-reaching action to restore a sustainable financial position in the medium term. There is a risk of significant weakness for the Council's financial sustainability if appropriate action is not taken.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Rosherville Limited, including its subsidiaries:

- Rosherville Property Development Limited (RPDL)
- Rosherville Servicing Limited
- Rosherville Repairs & Maintenance Limited

Audit logistics

Our planning visit has taken place in March-April 2024, and the timing our final visit will be communicated following an agreed timeline for receipt of the financial statements. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £161,790 for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. See page 44 for more details.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions – Rebutted for the council	**Group and Council**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition for public sector bodies.	Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the pension fund, we have determined that it is likely that the presumed risk of material misstatement due to improper recognition of revenue can be rebutted. Because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical framework of public sector bodies, including Gravesham Borough Council, mean that all form of fraud are seen as unacceptable. **Therefore, we do not consider this to be significant risk for the Council.** **For the Group, we will revisit our assessment in due course**

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	**Group and Council**	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets.	Having considered the risk factors relevant to the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals, which are considered as part of standard audit testing and our testing in relation to the significant risk of management override of control as mentioned in the next slide. **Therefore, we do not consider this to be significant risk for the Council.** **For the Group, we will revisit our assessment in due course**

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	**Group and Council**	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.	We will: • evaluate the design effectiveness of management control over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Council only**	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£62,671k in the Council's balance sheet for 2019/20) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we will: • document the design and implementation 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 the report; and • obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including Council Dwellings and Investment Properties)	**Group and Council**	The Council has the following types of properties that are valued: • Other land & buildings: The Council re-values its land and buildings on a rolling five-yearly basis. • Council dwellings: The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. • Investment properties: The Council measures its investment properties fair value and these are re-valued each year-end. The valuations of land and buildings, council dwelling and investment properties represent a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of these estimates to changes in key assumptions. Additionally, management will need to ensure the carrying value of these assets in the financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling revaluation programme is used. We therefore identified valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, which is one of the most significant assessed risks of material misstatement. **Continued on next slide**	To address this risk we will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the design and implementation effectiveness of relevant controls put in place by management to ensure that valuations are materially accurate; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • assess the value of a sample of assets through assessing the reasonableness of key assumptions such as, floor areas, build cost (for DRC), rental values (for EUV), Yields (For MV). This will include to operational land and buildings as well as council dwellings and investment properties; • evaluate the potential movement of assets not revalued in year, using market indices to determine whether there could be a material movements that could be indicative of misstatement; **Continued on next slide**

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including Council Dwellings and Investment Properties) - Continued	**Group and Council**	**Pinpointing the risk:** • We plan to pinpoint the significant risk around the following: • assets which are large; • assets where the valuation movement differs significantly to what we would expect based on indices; • assets where we are aware of a significant change in any of the key assumptions from the prior period; and • any other factors which in our auditor judgement increases the risk of material misstatement in a particular asset The pinpointing of the risk around specific items can only be performed at the final accounts stage once we have been able to perform the above risk assessment procedures.	• test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; and • test a sample of Beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that Beacon group.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

<table>
<tr><th>Risk</th><th>Risk relates to</th><th>Reason for risk identification</th><th>Key aspects of our proposed response to the risk</th></tr>
<tr><td>Group consolidation</td><td>Group</td><td>The accounts of Rosherville LTD and its subsidiaries will need to be consolidated into the Group accounts with appropriate consolidating adjustments. This gives scope for potential material error.

2023/24 will be the first audited period of financial statement consolidation, and with this new group structure comes additional complexity and risk. As a result, there is a need to understand and implement the accounting and reporting requirements for these operations.

One of these subsidiaries, Rosherville Property Development Limited (RPDL), will be a significant component to the group based on size.

At the planning stage of our audit we have therefore identified a number of risks around the Council’s group financial statements, including:
• The risk that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances.
• The subsidiary entities prepare financial statements under UK GAAP (FRS 102) rather than IFRSs and transactions and balances may require adjustment in the Group financial statements where accounting policies differ under IFRS based reporting standards.</td><td>• document the design and implementation of the processes and controls put in place by management to ensure that the group consolidation is free from material error and in line with IFRS reporting standards;
• examine the group structure and determine which elements are in scope;
• reviewing the Council’s approach to consolidation and production of group accounts to ensure that this meets the requirements of the Code of Audit Practice International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; and
• test material intercompany transactions;
• review the key contracts to gain an understanding of the agreements put in place on the establishment of the companies;
• discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; and
• review any consolidation adjustments arising by the application of different accounting policies between the subsidiary and the group</td></tr>
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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The Charter redevelopment project	**Group**	Rosherville Property Development Limited (RPDL) is working to stimulate regeneration of Gravesend Town Centre through The Charter project, delivered by their lead development partner (Reef) to build new homes available for rent. It is planned that 20% of these homes will be available at discounted market rent, with the remaining 80% available at open market rent. These are to be marketed locally in the first instance. RPDL as of 31 March 2023 held stock worth £38.387million and had assets valued at £2.020million. Sums owed to group undertakings being Gravesham Borough Council amounted to £25.207million reflecting the progress being made for the Charter Project. In June 2023, the contractor, Henry Construction Projects Ltd, responsible for construction of the Charter had filed for administration. Lead development partner (Reef) sought to get the project back on track. Enabling works recommenced at the site in May 2024. Arrangements to fund the project via RDPL included the use of loans from the council to finance the capital spend on assets. This a significant transaction for GBC, for which the auditor has deemed it appropriate to document a further understanding.	• document the design and implementation of the processes and controls put in place by management to ensure that the transaction is not materially misstated; • obtain an understanding of RDPLs transactions with Henry Construction Projects Ltd prior to their administration. Including evaluating the capital financing arrangements with the contractor and development partner; • ensure the accounting treatment for both the asset and liability align with the relevant accounting standards; • ensure the capitalised value of AUC is not impaired following the change in construction delivery company; • assess the MRP charged in relation to the Charter project capital spend; and • review critical judgements in the application of accounting policies

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Termination of the St Georges deal with Aviva	**Group**	The Council has now come to an agreement with Aviva investors to terminate the transaction relating the St Georges Shopping Centre. To end this arrangement in 2023/24, the council has made a significant capital payment to Aviva Investors in the form of a surrender premium, effectively replacing the finance lease with external borrowing. In return, Aviva Investors will surrender the headlease and bring to an end the operational underlease agreement with the council. The council would then have an unencumbered interest in the St George's Shopping Centre, giving the council full control over its future operation. This a significant transaction for GBC, for which the auditor has deemed it appropriate to document a further understanding.	• document our understanding of this significant transaction and the processes and controls put in place by management to ensure that the Council's accounting treatment for exiting the deal is appropriate and is not materially misstated; and • test the accounting entries to transfer the loan premium, including ensuring compliance with the CIPFA code of accounting practice and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

In January 2020, GBC set up Rosherville Limited with the intention that this entity would operate as a parent company to a Rosherville group structure, with subsidiary companies formed to offer services.

With this being a separate company, the perception is that there is more flexibility available to maximise opportunities than what a Local Authority might be able to progress on a stand-alone basis. To help facilitate this, three additional wholly owned subsidiaries were subsequently incorporated by the Council with Rosherville Property Development Limited (RPDL) and Rosherville Servicing Limited created in May 2020 and Rosherville Repairs & Maintenance Limited created in April 2022.

As the first period of audit on the group consolidation will be 2023/24, we plan to update our group audit scope and risk assessment upon receipt of the 2023/24 financial statements.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Gravesham Borough Council	Yes		See risks identified on pages 13 - 21	Full scope audit performed by Grant Thornton UK LLP
Rosherville Limited	No		None	Analytical review performed by Grant Thornton UK LLP
Rosherville Property Development Limited (RPDL)	Yes		Valuation of Property Plant and Equipment	Specific scope procedures on the Valuation of Property Plant and Equipment (significant risk) are to be performed in line with the response to risk outlined on pages 17 - 18.
Rosherville Servicing Limited	No		None	Analytical review performed by Grant Thornton UK LLP
Rosherville Repairs and Maintenance Limited	No		None	Analytical review performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our most recent audit of the Council's financial statements 2019/20, which resulted in 10 recommendations being reported in our Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
● 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. **Recommendation** Where any complex arrangements are entered into, ensure that appropriate accounting advice is obtained if the council do not have sufficient expertise in-house.	The St Georges transaction was innovative for the local government sector at the time and there was no tested precedent for the accounting treatment to be applied. Improvements to the content and format of decision reports have been made, which emphasises the need for accounting advice to be obtained, either in-house or from external experts, and provided to Members as part of the decision-making process. **2024 - No Further Update Required.**

Controls

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

Progress against prior year audit recommendations

We identified the following issues in our most recent audit of the Council’s financial statements 2019/20, which resulted in 10 recommendations being reported in our Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** 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.	The council's ledger structure is such so that every balance sheet code has to be given an appropriate classification. We will look to continually review this structure as part of financial year-end procedures to ensure debtor and creditor balances are automatically allocated correctly, keeping manual adjustments to a minimum. **2024 - The Council's ledger system still stands as previously explained, which means that manual adjustments to an extent are inevitable. However, as part of closedown processes and regular balance sheet reconciliations, the Finance Team constantly monitor this, so where there is an opportunity to "lock in" the hierarchy of a particular code and reduce manual intervention, this is taken.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** 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.	A review of user access controls is underway to respond to the issue identified. **2024 - The NEC Revenues & Benefits system (formerly known as Northgate) has the superuser account 'RB' . This is not unique to Gravesham BC but affects all councils which use it. This account is used at a database administrator level . However, there are limited historical 'standard' processes which require running by the user 'RB'. Consequently, the use of this account is required by named system team officers in order to set up these tasks in the batch scheduler interface. These staff would not deal with day-to-day assessment of individual accounts .**
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. **Recommendation** A review of payments made in March should be included as part of closedown procedures to reduce the risk of prepayments not being identified.	Closedown processes have been updated to ensure that the last three payment runs in March, as well as the first three in April each year are reviewed, thus ensuring wider coverage and opportunity to identify any prepayment/accruals and ensure proper accounting treatment. **2024 - No Further Update Required. Given the required timing of production of Outturn Report and Statement of Accounts, it would not be practical to extend this any further. It is felt that analysis of the last/first 3 payment runs, provides sufficient coverage of the accruals process.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** Ensure all starter forms are signed by both the employee and the manager and have a documented start date.	We believe the issue found was an isolated incident within the testing process. Since 2020, the council has automated the process for new employees which captures start date information and ensures appropriate segregation of duty and authorisation as part of this process. **2024 - The council has raised two calls with the NEC helpdesk to seek to have this amended. They have confirmed that they are moving towards withdrawing the need to use the 'RB' account for specific tasks. In the meantime, a control log has been created by the system team to show when and why the**
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. **Recommendation** 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.	The council will rightly rely on expert reports for technical information to be included in the financial statements. Processes are in place to review such reports, albeit it is recognised that the performance and outcomes from these processed could be better documented for audit purposes. **2024 - The Council continues to rely on experts for technical information as/where/when required, and looks to document these processes, linking requests back to original aims/project scope etc.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** A full audit trail should be retained to support key inputs to all valuations.	PPE Valuations, in the main, are undertaken by qualified officers within the council. The audit recommendation has been discussed with these officers and improvements made to valuation reports to assist the valuation and audit processes **2024 - The Finance Team regularly liaises with those undertaking valuations to ensure completeness of information from an audit perspective. This also includes reviewing information received and challenging significant movements to ascertain assurance.**
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. **Recommendation** The council should consider moving all valuations to 31 March.	This recommendation will be discussed with the internal Valuation Staff and implementation considered as part of the preparations for the 2022/23 Financial Statements. **2024 - The Council has considered this recommendation and as of 2021/22, all valuations have been undertaken as at 31 March. This is an approach the Council intends to continue going forwards.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** 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	This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements. **2024 - The Principal Accountant has been liaising with the External Audit manager on this point, and specific instructions have been issued to those involved in balance sheet reconciliations to provide cleansed listings.**
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. **Recommendation** Management should consider whether the split between the land and buildings elements of such assets is compliant with the Code.	This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements. **2024 - Assigning the land value of an asset with a nominal value of £1 is a way of recognising that there is a land component, but this component is not considered to have a material valuation. Valuers consider the Land/Building split each year and will ensure that this is compliant with the Code.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Low	**Assets under construction** Dering Way is included in assets under construction, but work has still not commenced. Therefore, there appears a risk that the asset should be classified in a different asset class (such as surplus assets). If assets are not classified appropriately then there is a risk their carrying value may not be compliant with Code requirements **Recommendation** Management should consider the classification of this asset in future years to ensure it is in line with CIPFA Code requirements	This will be considered as part of the 2020/21 statement of accounts process. **2024 - The council's capital programme up to and including 2022/23 incorporated a project to develop the site owned by the council at Dering Way, and therefore the classification as an asset under construction during this period is considered to be reflective of the council's plans for development at the time. The project was removed from the capital programme for 2023/24 and therefore the asset should be considered as Other Land & Buildings.**
Low	**Surplus assets** Surplus assets should be valued at fair value, but the balance in the accounts includes some assets carried at cost **Recommendation** Management should consider the approach taken to valuation of such assets in future years	This will be considered as part of the 2020/21 statement of accounts process. **2024 - This is kept under constant review. As the assets in this category related to land with a 2020/21 balance sheet value of £246k, it is not considered that there would be a material change which would have a significant impact on the balance sheet classification / value.**

Controls

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

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Low	**Money market funds – classification** We were unable to obtain sufficient evidence to support management's judgement that the cashflows for their investments in MMFs meet the definition of SPPI. **Recommendation** Management should consider the classification of MMFs in future years	This will be considered as part of the 2020/21 statement of accounts process. **2024 - We have reviewed the accounting treatment applied and are satisfied that the classification of MMFs is correct and compliant. We will therefore not be making any changes to our accounting treatment.**
Low	**Pooled property funds – fair value hierarchy** We were unable to obtain sufficient evidence to support management's judgement that the fair valuations for pooled property funds are Level 1 in the fair value hierarchy. **Recommendation** Management should consider the fair value hierarchy classification of the investments in future years	This will be considered as part of the 2020/21 statement of accounts process. **2024 - We have reviewed the accounting treatment applied and are satisfied that the classification of pooled property funds is correct and compliant. We wil therefore not be making any changes to our accounting treatment.**

Controls

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

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.1m, which equates to 1.4% of your draft gross expenditure for the most recent published financial statements for the period 2020/21. We have excluded the impact of HRA revaluations and included interest payable in determining this figure. We will determine group materiality upon receipt of draft consolidated financial statements for 23/24.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. This will include reassessing materiality upon receipt of the draft 2023/24 financial statements.

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.

Matter	Description	Planned audit procedures
3	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Finance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75k. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Finance and Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the GBC financial statements	£1,100,000	This benchmark is determined as a percentage of Gross expenditure which has been set at approximately 1.4%
Performance materiality for the GBC financial statements	£715,000	Performance Materiality is based on a percentage (65%) of the overall materiality.
Group materiality	X	X*

*Group materiality is TBC while we await receipt of consolidated financial statements that reflect both the Council and Subsidiary gross expenditure

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 43.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica Financials	Financial reporting	• Obtain an understanding of the ITGCs over the general ledger and review design and implementation of those controls
NEC	Council Tax, Business Rates, Benefits, Grants	• ITGC Assessment – design implementation only
Zellis (Shared services with Medway)	Payroll	• ITGC Assessment – design implementation only
MRI	Housing Rent	• ITGC Assessment – design implementation only

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.
A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body.
We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. We set out our reported assessment below:

Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Red	We have identified a significant weaknesses and have made a key recommendation relating to the Council's challenging underlying financial position from 2022/23 and over the medium term. One improvement recommendation has been made with respect to the capital programme financial monitoring.	We will follow up progress against the key recommendation(s) made and ensure that our work assesses the current arrangements in place.
Governance	Green	No significant weaknesses in arrangements identified and no improvement recommendations made.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place as required by the Code of Audit Practice.
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified however one minor improvement recommendation has been made in respect of procurement.	We will follow up progress against the improvement recommendation made and ensure that our work assesses the current arrangements in place.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Risks of significant VFM weaknesses – continued

Since our report on VFM arrangements for 2022/23, we are yet to undertake our detailed planning work and identification of risks of significant weakness in relation to your 2023/24 arrangements. We have detailed our indicative risk assessment for 2023/24 below.

In due course, we will communicate any updates arising from the detailed planning work.

Criteria	Risk of significant weakness - Indicative	Additional risk-based procedures planned
Financial sustainability	The severity of the Council's medium term financial outlook requires prompt, effective and far-reaching action to restore a sustainable financial position in the medium term. There is a risk of significant weakness for the Council's financial sustainability if appropriate action is not taken.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place including additional risk-based procedures relating to the risk identified. We will also follow up on any recommendation(s) made in 2022/23
Governance	No risk of significant weakness identified	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place.
Improving economy, efficiency and effectiveness	No risk of significant weakness identified	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place including additional risk-based procedures relating to the risk identified. We will also follow up on the improvement recommendation made in 2022/23

We report our value for money work in our Auditor's Annual Report. Any confirmed or additional significant weaknesses identified once we have completed our work will be reflected in your Auditor's Report and included within our audit opinion.

Audit logistics and team

Our final visit period will be communicated following an agreed timeline for receipt of the financial statements

Planning and risk assessment

Audit committee
July 2024
Audit Plan

Year end audit
TBC

Audit committee
X
Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit committee
X
Auditor's Annual Report

Zargham Malik, Audit Incharge

Zargham will support Jasmine in her work to ensure the early delivery of the audit testing and lead on several complex accounting issues. In additions, Zargham will also liaise with key members of the finance team to ensure audit testing and reviews are conducted on a timely basis.

Jasmine Kemp, Audit Manager

Jasmine is responsible for overall audit management, quality assurance of audit work and output. Jasmine will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable.

Parris Williams, Key Audit Partner

Parris is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the audit and governance committee. Parris will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Parris will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you via inflo
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout the planned period of the audit (as per our audit logistics set out on page 12)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Gravesham Borough Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £154,260.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees and updated Auditing Standards

Following our reappointment by PSAA as your external auditors, noted in the above, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2023/24 audit.

The major change impacting on our audit for 2023/24 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Pension Fund's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. For a Council of your size, we agree an increase of £7,530 is appropriate to address this additional work.

Taking into account the above, our proposed work and fee for 2023/24, as set out below, is detailed overleaf and has been discussed with the Director of Corporate Services.

Audit fees

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	Proposed fee 2023/24
Gravesham Borough Council Audit	£154,260
ISA 315*	£7,530
Group Accounts**	£5,000
Opening Balance***	X
Total audit fees (excluding VAT)	**£166,790**

*ISA 315 is not included within the published 2023/24 scale fees. The £7,530 is therefore a fee variation that is subject to PSAA approval. See page 43 above for more details

**Group accounts is not included within the published 2023/24 scale fees. The £5,000 is therefore a fee variation that is subject to PSAA approval.

***DLUCH and the NAO continue to consult upon backstop arrangements as at the time of writing. For Gravesham Borough Council the unaudited financial periods include 2020/21, 2021/22 and 2022/23.
The key impact of this backstop proposal is upon the opening balances for the first audited period (i.e. 2023/24). The decisions regarding the scale and scope of the assurance required are still under consultation, with the FRC involved in the discussions. Once it is known how we will risk assess and gain assurance over opening balances, we will agree an appropriate fee variation aligned with the scale and scope of additional work required. This will be subject to PSAA approval.

If the opinion on the 2020/21, 2021/22 and 2022/23 audit is disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)]

Potential impact

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. As the amount paid as a lessee in the 2019/20 audited financial statements was immaterial (£132k). The impact is likely to be immaterial. However, this assessment will need to be visited in the context of the councils current lease profile, and will therefore be further assessed upon receipt of the 2023/24 financial statements.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Pooling Housing Capital Receipts	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £161,790 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.
Housing Benefit Assurance Process	47,400	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 £47,400 in comparison to the total fee for the audit of £161,790 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

Grant Thornton

grantthornton.co.uk