

# Informing the audit risk assessment for Gravesham Borough Council 2023/24



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 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 your business or any 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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Gravesham Borough Council's external auditors and Gravesham Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

### Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Gravesham Borough Council's oversight of the following areas:

General Enquiries of Management

Fraud,

Laws and Regulations,

Related Parties,

Going Concern, and

Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Gravesham Borough Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>Ongoing austerity and the well-publicised pressures on local government finance (including demand for temporary accommodation), and the action being taken by the council to respond to these pressures.</p> <p>Termination of the arrangement with Aviva Investors relating to the St Georges Shopping Centre.</p> <p>Forward funding of works relating to The Charter Development.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Gravesham Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes. The Accounting Policies to be adopted by the council for 2023/24 were presented to the Finance &amp; Audit Committee in March 2024 for endorsement and have also been shared with Grant Thornton for comment ahead of the end of the financial year.</p> <p>At the time of preparing this response, there are no major changes to The Code that have been identified that will influence the council's accounting policies for 2023/24. The accounting policies are expected therefore to broadly remain in line with those used to prepare previous accounts, although opportunity has been taken to review the wording of accounting policies and update where necessary to provide greater clarification.</p> <p>As the audits of 2020/21, 2021/22 and 2022/23 are yet to commence, any amendments to the accounting policies identified through these audit processes are yet to be factored in.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Yes. The Council had a small investment in one money market fund at year end. It had long term investments in three property funds and three multi asset funds. Funds provided to Rosherville (and its subsidiaries) – the Council's wholly owned local authority trading companies are treated as long term debtors and equity. Loans to the Council are either from other local authorities or from the PWLB</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>The council has established Rosherville Limited, a wholly owned company, and three subsidiary companies. The council is engaged in a Funding Agreement with Rosherville Property Development Limited to bring forward The Charter development in Gravesend Town Centre.</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	We are not aware of any changes in circumstances that would lead to impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Gravesham Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	A separate analysis of external legal/solicitor costs has been conducted by the Finance Team, and will be shared with Grant Thornton alongside this document. This is based on the Council's provisional outturn at the time of preparation, gives details of suppliers/advisors, amounts and shows the issues/projects these services relate to. Further details on specific points can be obtained from the Legal Services team.
9. Have any of the Gravesham Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	We are not aware of any reports of fraud, non-compliance with laws and regulations or uncorrected misstatements from service providers which would affect the financial statements.

## General Enquiries of Management

Question	Management response
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>A separate analysis of consultancy costs has been conducted by the Finance Team, and will be shared with Grant Thornton alongside this document. This is based on the Council's provisional outturn at the time of preparation, gives details of suppliers/advisors, amounts and shows the issues/projects these services relate to.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Investments in Property Funds and Multi Asset Funds are held at FVPL and therefore ECL is not required. The Council had minimal investments in AAA rated Money market fund. The EPC will be calculated but anticipated to be significantly below triviality level and therefore will not be reflected in the Council's account.</p> <p>Funds provided to Rosherville (the Council's LATCO) have either been provided as equity or loan. There is no requirement to undertake an ECL on the equity holding. The Council will undertake an ECL for the loans that it has provided.</p>



# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Gravesham Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place regarding fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Gravesham Borough Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Gravesham Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Gravesham Borough Council's risk management processes link to financial reporting?</p>	<p>The council considers the following risks of Financial Statements being materially misstated due to fraud, and has put in arrangements to prevent these risks actually materialising:</p> <ul style="list-style-type: none"> <li>• <b>Failure to comply with the relevant Code of Practice</b> - The financial statements are prepared in line with the relevant Code of Practice, with key staff attending training workshops and seminars to maintain their knowledge of requirements. The accounts are also subject to internal quality assurance arrangements that review areas of highest risk and analytical review that would identify major movements between years and seek explanations that would assess the likelihood of any material misstatement. The Assistant Director (Corporate Services) and Director (Corporate Services) provide challenge throughout the process to prepare the Statement of Accounts, particularly in the areas of analytical review. Key tasks are included in the annual Closedown Timetable, with responsibilities assigned to individual officers alongside dates for action to be completed. Compliance with the timetable is monitored throughout the year-end closedown period with corrective action taken as required.</li> <li>• <b>Miscoding of transactions</b> – The use of purchase ordering requires coding for transactions to be authorised by a senior officer before invoices are paid. Monthly budget monitoring routines are in place to confirm the accuracy of financial coding.</li> <li>• <b>Deliberate omission of transactions</b> – the council has procedures in place to reconcile its General Ledger to bank account transactions on a monthly basis which are overseen by a Principal Accountant.</li> <li>• <b>Appropriateness and competency of officers involved in the production of the accounts</b> - The officers who prepare the statements are professionally qualified accountants who are bound by their professional body's codes of conduct.</li> </ul> <p>The council's processes for identifying, responding to and reporting on the risk of fraud are:</p> <ul style="list-style-type: none"> <li>• <b>Fraud Awareness</b> – training is provided to staff and Members to maintain their knowledge on identification and reporting of suspected fraud. Information is also available on the council website to enable members of the public to report concerns. The council has a Counter-Fraud and Corruption Strategy in place.</li> <li>• <b>Fraud Identification Exercises</b> - the council takes part in a number of data matching exercises, both internally and as part of the National Fraud Initiative (NFI) and is a member of the Kent Intelligence Network (KIN).</li> </ul>

# Fraud risk assessment

Question	Management response
1. Continued	<ul style="list-style-type: none"> <li>• <b>Corporate risk management processes</b> – at a strategic and operational level, at least annual assessments of risk are undertaken which incorporate consideration of fraud risk. Risk Registers are produced as a result of these exercises setting out how identified risks will be mitigated, managed or eliminated. During 2023/24 specific Fraud Risk Registers have also been prepared.</li> <li>• <b>Internal Audit</b> – the council maintains an effective internal audit function which reports periodically to Management and Members providing assurance on the integrity of financial controls. In addition, counter fraud provide information on counter-fraud activities, including national fraud initiative (NFI).</li> <li>• <b>Financial and Performance Reporting</b> – management and Members receive regular reports against key performance measures as well as finance-focused reports on budget monitoring, treasury management and the annual accounts process.</li> <li>• <b>Annual Governance Statement</b> - The process to develop the annual governance statement includes specific reference to fraud risk within management assurance statements. Any risks highlighted by this process would be considered by the Governance Group and, if significant, would be included in the Annual Governance Statement Action Plan.</li> </ul>
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The main areas of fraud to which the council are exposed are considered to be council tax fraud, creditor fr procurement fraud and tenancy fraud.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Gravesham Borough Council as a whole, or within specific departments since 1 April 2023? If so, please provide details	Since 01/04/23 the authority has received 134 allegations of suspected fraud, error and irregularity affecting the council, all relating to council tax and housing matters. One allegation was made against an officer of the council, which related to misuse of council vehicle, however this was found to be a malicious allegation.
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Through the Corporate Risk Management Process, Performance and Financial Reporting, audit reports findings, findings from investigations and risk issues. These are shared with Management Team and Members (via the Finance & Audit Committee) for their consideration. Risk (including fraud risk) is also considered in the standard report template used by the council and in the council's risk management arrangements.

# Fraud risk assessment

Question	Management response
<p>5. Have you identified any specific fraud risks? If so, please provide details</p>	<p>The counter fraud team conducted fraud risk assessments across council services during 2023-24, identifying potential types of fraud that may occur and determining the prevention controls in place. This information was used to create a fraud risk register that was presented to the Finance &amp; Audit Committee in February 2024.</p>
<p>Do you have any concerns there are areas that are at risk of fraud?</p>	<p>Some areas of the council will continue to be at risk of fraud due to the nature of business, such as council tax, business rates and housing, and despite the prevention controls already in place. Since 01/04/2023, the authority has received 134 allegations of suspected fraud, error and irregularity affecting the council, relating to council tax, business rates and housing matters. One referral related to allegations against a council employee and misuse of a council owned vehicle, but this was found to be a malicious allegation.</p>
<p>Are there particular locations within Gravesham Borough Council where fraud is more likely to occur?</p>	<p>Areas identified within the council that are considered to be at risk of fraud have been identified within the Fraud Risk Register, which will be used to direct the resources of the council's Counter Fraud Team.</p>
<p>6. What processes do Gravesham Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The council takes part in a number of data matching exercises, both internally and as part of the National Fraud Initiative (NFI) and is a member of the Kent Intelligence Network (KIN).</p>
	<p>Fraud awareness training is delivered to staff and Members to ensure they have an awareness of fraud risks and what should be reported. In addition, specific fraud risks are assessed to identify any gaps in prevention controls. The council has a Counter Fraud Team to which reports of suspected fraud can be reported and investigated.</p>
	<p>The council has a Whistleblowing Policy and procedure in place, which is available on the Internet. This has recently been reviewed and reissued (supported by line managers awareness sessions) in 2023/24.</p>
	<p>Fraud awareness training is delivered to staff and Members to ensure they have an awareness of fraud risks and what should be reported. In addition, specific fraud risks are assessed to identify any gaps in prevention controls. The council has a Counter Fraud Team to which reports of suspected fraud can be reported and investigated.</p>
	<p>The council has a Whistleblowing Policy and procedure in place, which is available on the Internet. This has recently been reviewed and reissued (supported by line managers awareness sessions) in 2023/24.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Gravesham Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Through risk-based Internal Audit reviews and other inspection regimes, consideration of performance management data, completion of annual assurance statements by senior management and the self-assessment of the council's governance arrangements, which is completed as part of the process to prepare the Annual Governance Statement.</p> <p>During 2023/24 the council also undertook a self-assessment of its governance arrangements against the Department for Levelling Up, Housing and Communities (DLUHC) guidance for addressing cultural and governance failings in local authorities.</p> <p>Where internal controls are not in place or considered not effective, these will either be addressed through internal audit recommendations, as an action within the Annual Governance Statement or through the development of action plans in response to inspection regimes or self-assessments conducted by the council.</p> <p>There is not considered to be any potential for override of controls or inappropriate influence over the financial reporting process.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There any not considered to be any areas where there is potential for misreporting.</p>

# Fraud risk assessment

Question	Management response
<p>9. How does Gravesham Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Constitution sets out, at a high level, the council's expectations in terms behaviours and business processes operated by its staff and contractors. These are also reflected in the councils Counter-fraud and Corruption Strategy. The council has an Officer Code of Conduct.</p> <p>Expectations and obligations of contractors are set out in contractual documentation and agreements. Staff are encouraged to report concerns through the Whistleblowing Policy, which is available on the Staff Intranet and which has been reviewed and reissued (supported by awareness sessions) in 2023/24, and fraud awareness training. Staff are encouraged to report any concerns about fraud.</p> <p>No significant issues have been reported during 2023-24 to date, although staff have referred a number of suspicions relating to housing and council tax related matters.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts are considered to be those at Wider Management Team level and above with the Constitutional ability to take decisions and direct resources, financial or other.</p> <p>Risk management actions taken by the council include robust recruitment processes and employment checks, regular performance monitoring, employment of controls to ensure segregation of duties, encouraging staff and others to report concerns around fraud and behaviours.</p> <p>All internal officers are also under obligation to report any conflicts of interest in line with the Councils Code of Conduct.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Officer and Member registers of interests alongside disclosures of pecuniary interests at council meetings provide an information source for related party relationships, however we have no intelligence at this time to indicate that these would give rise to instances of fraud. Such risks are mitigated through segregation of duty controls, clear decision making responsibilities and officers and members with such interests not being part of any formal decision-making processes.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Regular reports are made to the Finance &amp; Audit Committee on the work of the Counter Fraud team.</p> <p>The Finance &amp; Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control through consideration of reports from Internal Audit, External Audit and other inspection bodies, including the council fraud risk registers.</p> <p>Outcomes for the year can be seen from review of the agendas and minutes of the Finance &amp; Audit Committee.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>I'm not aware of anything having been reported under whistleblowing in terms of fraud allegations and as such no potential complaints.</p> <p>The Council is not aware of any whistleblowing concerns or complaints reported by internal officers. Any whistleblowing concerns raised will be dealt with in accordance with the Whistleblowing Policy.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Gravesham Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.



# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Gravesham Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Gravesham Borough Council's regulatory environment that may have a significant impact on the Gravesham Borough Council's financial statements?</p>	<p>The Constitution sets out the decision-making arrangements and Scheme of Delegation of the council. Legal considerations are included at the start of the council's report template. All reports, including those requiring decision, are required to be reviewed by Legal Services before being presented to the relevant body.</p> <p>The Head of Legal Services or her representative attends the council's Management Team and decision-making Member meetings.</p> <p>Regular meetings are maintained between the Chief Executive and Monitoring Officer, and Director (Corporate Services) and Monitoring Officer.</p> <p>The Head of Legal Services meets at least weekly with the Monitoring Officer.</p> <p>There have been no significant changes to the council's regulatory environment during 2023/24.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through their monitoring of reports to council committees.</p> <p>Through receipt of Internal Audit Findings reports.</p> <p>Through consideration on the Annual Governance Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>None known at the point of preparing this response.</p>

## Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None known at the point of preparing this response.
5. What arrangements does Gravesham Borough Council have in place to identify, evaluate and account for litigation or claims?	<p>Potential litigations and claims would be discussed at MT, which is attended by the Director (Corporate Services) or her substitute.</p> <p>As part of the annual Statement of Accounts preparation process, Wider Management Team (Head of Service and above) are asked to confirm whether they are aware of any contingent assets or liabilities that the council will need to consider in preparing its financial statements.</p>
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	<p>No.</p> <p>A review during 2023/24 by the IPCO confirmed ongoing compliance with RIPA 2000 and the Investigatory Powers Act 2016.</p>

# Related Parties

## Matters in relation to Related Parties

Gravesham Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Gravesham Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans for the benefit of employees of the Council, or of anybody that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Gravesham Borough Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Gravesham Borough Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Gravesham Borough Council</li> <li>Whether Gravesham Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>There are currently no expected changes to related party disclosures other than to reflect any changes in Member appointments to external boards following the Local Elections in May 2023.</p>
<p>2. What controls does Gravesham Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The officer and member codes of conduct require interests to be declared. The council maintains registers of Member and Officer Declarations of Interest which are incorporated into the annual related party transaction review. The Statement of Accounts process requires all Members and Officers to complete an annual related party transactions declaration. Where declarations are not forthcoming or able to be obtained, this process will be supplemented by checks against Companies House.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The council has in place an automated process for purchase ordering which requires segregation of duty between creating and approving Purchase Orders, with authorisations levels set depending on the value of transaction. Invoices received will be automatically matched to Purchase Orders unless there is a discrepancy found. The Systems Team receives information on new starters and leavers to enable system access parameters to be added/amended/removed during the year, with an annual review of system access controls and permissions carried out annually.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Authorisation of significant transactions outside of the normal course of business will need to follow the requirements of the Constitution in terms of granting of authority to proceed. Beyond this, the authorisation controls requiring segregation of duty between creating and approving Purchase Orders/Payment Vouchers would apply, with authorisations following the same process as above and dependent on the value of transaction.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern –Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government pension scheme bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work, and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the Gravesham Borough Council will no longer continue?</p>	<p>Regular performance monitoring and reporting at a Management and Corporate Plan level. Regular budget monitoring arrangements in place.</p> <p>Subscriptions to national, local and service-specific professional bodies. Monthly Policy Bulletins prepared and circulated containing government announcements, policy decisions, consultations, legislative developments, and relevant guidance for local authorities so that any service impacts can be identified and the earliest opportunity.</p>
<p>2. Are management aware of any factors which may mean for the Gravesham Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Not at this time.</p>
<p>3. With regard to the statutory services currently provided by Gravesham Borough Council, does Gravesham Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Gravesham Borough Council to cease to exist?</p>	<p>We expect statutory services to continue, albeit the council will always review and consider alternative delivery models or service design modifications where service demand indicates this is needed and/or the council's financial position requires it to do so.</p>
<p>4. Are management satisfied that the financial reporting framework permits Gravesham Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes. Despite the council's financial statements being caught in the national audit backlog situation, the council produces various other financial reports to enable it to be aware of its financial position. Management Team and Members review the council's Medium Term Financial Plan (MTFP) periodically through budget monitoring reports and during the budget-setting process to confirm the on-going viability of the council. The outlook of the MTFP is 10 years to enable the financial impacts of current volatility within local government financing to be better understood over the longer term.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	These tend to be transactions, events, and conditions where the final financial impact will not be known until after the preparation of the financial statement. In all instances these will have previously been discussed with the auditor and sufficient evidence maintained to demonstrate the estimation method and basis of calculation. Such items will be documented in the Statement of Accounts under the section entitled Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.
2. How does the Gravesham Borough Council risk management process identify and address risks relating to accounting estimates?	The council will consider the materiality of estimates as part of its accounting processes. In addition, the council will take account of expert specialist advice, historic trends and experience, current trends and other factors pertinent at that point in time with the aim of mitigating or minimising the risk in accounting estimates made.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The council will seek to adopt guidance and best practice issued by bodies such as CIPFA and other professional experts when considering the methods, assumptions and source data used for key accounting estimates. Where there is a need for change, the same sources will be consulted.
4. How do management review the outcomes of previous accounting estimates?	Where estimates are material to the accounts, the council will compare actual outturns with those which were estimated. Any material variances that impact on financial outturns would be reported through the council's financial monitoring processes.
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No changes made.
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The need for and application of specialised skills will be based on the knowledge base within the council and the significance and complexity of the accounting estimate to be made.
7. How does the Gravesham Borough Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The type of transactions that warrant significant accounting estimates are identified in our response to question one of this section. Where estimates are used, whether generated internally or externally, these are subject to review and challenge to identify and confirm any movements between years and to provide assurance of the estimates made.



# Accounting Estimates - General Enquiries of Management

Question	Management response
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Key accounting estimates will be reviewed by principal finance officers with experience and responsibility for those areas, and then discussed with the S151 Officer/Deputy S151 Officer for management sign-off.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	Senior finance officer review of the statement of accounts, which includes review by the S151 Officer/Deputy S151 Officer, will include reviewing the basis and appropriateness of key accounting estimates. In certain instances, such as pension fund estimates, this will involve seeking specialist advice where the knowledge base or skills within the council is not available.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The arrangements are based on prior year application of the approach to be adopted for accounting estimates. Where improvements have been identified, or issues and comments raised by the external auditor, the approach has been amended and/or adapted to ensure that the methodology used, and basis of, accounting estimates remain relevant and appropriate.
12. How is the audit and risk committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting Policies to be applied are shared with the Finance & Audit Committee for information/endorsement prior to the statement of accounts being prepared. Members of the committee are able to seek assurances from officers involved in making and reviewing accounting estimates as part of the council's governance processes, through training on the statement and formal consideration of the statement before it is approved. The Finance & Audit Committee will also receive the external auditor report on the Statement of Accounts as part of its considerations.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current value. Rolling programme of valuations	Reasonableness checks performed by Finance team in conjunction with valuers	Yes - In-house valuers within Strategic Property Team (RICS qualified)	Reviewed as part of the ongoing valuation process, on the basis of external audit comment etc.	No – same process as previous year
Council dwelling valuations	Current value – incorporating the basis of Existing Use Value for Social Housing.	Reasonableness checks performed by Finance team in conjunction with valuers	Yes - Wilkes, Head & Eve	Reviewed as part of the ongoing valuation process, on the basis of external audit comment etc.	No – same process as previous year
Investment property valuations	Highest and best use. Valued each year.	Reasonableness checks performed by Finance team in conjunction with valuers	Yes - In-house valuers within Strategic Property Team (RICS qualified)	Reviewed as part of the ongoing valuation process, on the basis of external audit comment etc.	No – same process as previous year
Depreciation	Useful life is assessed by valuers with depreciation methodology assessed in accordance with accounting policies.	Reasonableness checks performed by Finance team in conjunction with valuers	Yes - In-house valuers within Strategic Property Team (RICS qualified)	Reviewed as part of the ongoing valuation process, on the basis of external audit comment etc.	No – same process as previous year

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Barnett Waddingham Actuary Report – provided via Kent County Council / Kent Pension Fund	See IAS19 report and accounting briefing note for full details. Reasonableness checks performed by Finance team.	Yes - Barnett Waddingham	Reviewed periodically as part of the actuarial service provided by Barnett Waddingham.	No – same process as previous year
Fair value estimates	Fair values of loans are calculated by Link, the Council's treasury management advisors. Fair values of Property Funds and Multi asset funds are based on BID prices as at 31 March 2024. Fair values for the equity holdings in Rosherville are based on value of the companies balance sheet as at 31 March 2024.	Reasonableness checks performed by Finance team.	Yes – Link Group	Reviewed periodically as part of the treasury management service provided by Link Group.	No – same process as previous year
Provisions	Will be dependent on the nature of provision being made, but likely to be based on external advice or methodology agreed with the S151/Deputy S151 Officer.	Reasonableness checks performed by Finance team and reviewed by S151/Deputy S151 Officer.	Will be dependent on the nature of provision being made.	Provisions will be reviewed annually to ensure they remain fit for purpose based on advice or information as relevant from external organisations/historic trend data/current trends.	No - same process as previous year.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals templates sent to budget-holders in accordance with Council Final Accounts timetable. Returns received and reviewed by finance team. Finance team, who also identify wider accruals e.g. rental income raised automatically in advance.	Review of last 3 payment runs of old year, and first 3 payment runs of new to check for accruals. Comparisons to budget/expected outturn undertaken.	Process administered by Council Finance team.	Process reviewed annually to ensure adequacy / completeness, as well as in the light of any audit comments.	No - same process as previous year.
Credit loss and impairment allowances	Different process for different aspects of accounts, although general principle of aged debt approach across services.	Aged debt profiles used e.g. arrears reports for Council Tax, NNDR. % based approach on sliding scale used for corporate sundry debt.	Process administered by Council Finance team, with input from budget holders in specific services.	Process reviewed annually to ensure adequacy / completeness, as well as in the light of any audit comments.  Consistency sought year-on-year to ensure items treated on like-for-like basis. Specific circumstances e.g. Covid-19 incorporated if/as/when applicable.	No – same process as previous year.
Finance lease liabilities	Gravesham Borough Council does not have any Finance leases.	Any Finance lease implications within a major project undertaken would be explored at inception.	N/A	N/A	N/A

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	Gravesham Borough Council is not involved in any PFIs.	Any PFI implications for a major project undertaken would be explored at inception.	N/A	N/A	N/A
Finance lease liabilities	Gravesham Borough Council does not have any Finance leases.	Any Finance lease implications within a major project undertaken would be explored at inception.	N/A	N/A	N/A
PFI Liabilities	Gravesham Borough Council is not involved in any PFIs.	Any PFI implications for a major project undertaken would be explored at inception.	N/A	N/A	N/A



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