The Annual Audit Letter for Gravesham Borough Council

Year ended 31 March 2020

July 2024

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out Gravesham Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Finance and Audit Committee as those charged with governance in our Audit Findings Report on 21 December 2023, along with an update in our Audit Findings Addendum which was issued electronically on 26 February 2024 and formally considered at the meeting of the Finance & Audit Committee on 5 March 2024..

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,400,000, which is approximately 1.9**%** of the Council's gross cost of services.
Financial Statements opinion	We gave a qualified opinion on the Council's financial statements on 28 February 2024. The qualification was due to the following two matters: • With regard to the accounting policy for the financing of the regeneration of the St George's Shopping Centre and associated properties, we disagree with the Authority's judgement that only those direct entries which flow through its records in respect of this matter should be reflected within its financial statements. In our judgement, the substance of the transactions should determine whether they fall within the Authority's accounting boundary, rather than whether the Authority was a party to those transactions. Furthermore, we were unable to obtain sufficient appropriate audit evidence in respect of the amortised cost of the liability recognised in the financial statements. This was because the Authority was not able to provide us with sufficiently detailed information in respect of the transactions that took place between the Authority's commercial partners regarding this matter. For this reason, we were also unable to conclude on the reasonableness of the Authority's accounting treatment for an embedded prepayment option and the appropriateness of Retail Price Index assumptions included in the calculation of the effective interest rate. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary in respect of this matter. (continued on following page)

Executive Summary

Financial Statements opinion (continued)	• The Authority accounted for all revaluation gains/losses relating to council dwellings by making an adjustment between the Capital Adjustment Account and the Revaluation Reserve. In our judgement, the Authority should have accounted for all revaluation gains/losses relating to council dwellings through either the Surplus/Deficit on Provision of Services or Other Comprehensive Income and Expenditure as appropriate, and restated prior year comparatives, including opening balances, accordingly. The Authority have not adopted the accounting treatment that we believe to be appropriate because they have not undertaken, and will not undertake, the work required to do so. Consequently, we were unable to determine whether any adjustments to the financial statements were necessary in respect of this matter. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings (including council dwellings, other land and buildings and investment property), the Authority's share of the pension fund's property investments, and the authority's own investments in pooled property funds as at 31 March 2020 given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year, except for the possible effects of the matter described in the basis for qualified opinion section of our report.
Whole of Government Accounts (WGA)	Due to the timing of the opinion being issued we were not required to do work on the Council's consolidation return following guidance issued by the NAO as the NAO's work had already been concluded.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in respect of the accounting and governance surrounding the St George's transaction. We therefore issued an adverse value for money conclusion in our audit report to the Council on 28 February 2024.
Certificate	We certified that we have completed the audit of the financial statements of Gravesham Borough Council in accordance with the requirements of the Code of Audit Practice on 28 February 2024.

Executive Summary

Working with the Council

A substantial proportion of the audit work took place during 2020, with the subsequent delay to the audit being due to specific technical areas of the accounts. The outbreak of the Covid-19 coronavirus pandemic in 2020 had a significant impact on the normal operations of the Council in a wide variety of areas. The impact on the core finance team was more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business, and . Management were able to provide us with the draft financial statements for audit on 7 July 2020 well in advance of the amended deadline.

There were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel meant both Council and audit staff had to work remotely throughout the main audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) were used where necessary. Inevitably in these circumstances resolving audit queries takes longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.

By the time of the completion of the audit in late 2023 and early 2024, pandemic restrictions had lifted and hybrid working was well embedded on both sides.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
July 2024

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,400,000, which is approximately 1.9**%** of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £70,000, above which we reported errors to the Finance and Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected those circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • Volatility of financial and property markets increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. *(continued)*	As part of our audit work we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology; *(continued)*	The Council's valuers prepared their valuations as at 31 March 2020. In their reports, they confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty and a higher degree of caution should be attached to their valuations than would normally be the case. Their valuations for property, plant and equipment and investment properties are reported on the basis of 'material valuation uncertainty'. The Council reflected this uncertainty in Note 14.6 in the draft financial statements, and Note 14.9 in the revised accounts. The Council has also made disclosures in Note 14.28 (Financial Instruments), and in Note 14.23 (Pensions) in the revised accounts, in relation to the impact of the Covid-19 pandemic, which created uncertainty surrounding investment valuations. As such, valuers and Property Fund Managers considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. *(continued)*

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 (continued) We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations, pension fund liability valuations and recovery of receivable balances; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.	This created further material valuation uncertainties in the Council's own property fund investments, and in the pension fund property investments which impact on the net defined benefit liability. We referred to these material valuation uncertainties in our audit report. These references do not constitute a qualification of the audit opinion.
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	Following our audit work management made some improvements to disclosures relating to critical judgements and estimation uncertainty. As part of our audit work we identified errors in the accounting treatment for the St George's transaction. The revised accounting treatment required additional judgements and estimates to be made by management. See separate reporting on this from page 11 onwards. No other issues have been identified.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions. The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk. Update to the wording in the audit plan: for clarity, this includes council dwellings, land and buildings and investment property.	As part of our audit work we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • engaged our own valuer to assess the appropriateness of the valuation approach for St George's shopping centre and other similarly valued operational assets, and the appropriateness of the assumptions that underpin the valuation; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; *(continued)*	We identified several issues during our testing including: • errors in valuation for specific assets – including the inappropriate inclusion of finance costs and demolition fees in certain DRC valuations, and errors in the valuation of garages • challenge over the index used to revalue council dwellings – management determined that better information was available at the time of audit than at the time the accounts were prepared so revised the index used (from South East general to Gravesham specific) which resulted in an adjustment to the value of council dwellings • several disclosure errors and omissions • some difficulties in obtaining supporting evidence for source data • fundamental errors in the accounting treatment for council dwellings, with all revaluation gains/losses being taken through the CIES net cost of services and no revaluation reserve being maintained, which is not compliant with the requirements of the CIPFA Code A number of control recommendations and adjustments to the accounts were identified through our work. ***Material valuation uncertainty*** As discussed under 'Covid-19' above, we will refer to the material valuation uncertainties in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion. ***HRA revaluation reserve*** The most significant adjustment relates to the HRA revaluation reserve. Following our challenge, we identified that the valuation accounting treated the *(continued)*

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (continued) (See previous page)	• evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.	HRA stock as a single asset, rather than performing an asset-by-asset analysis to identify the appropriate accounting treatment for revaluation gains and losses. We requested that management perform analysis to identify whether there was a material risk, which reflected gains/losses in valuation on individual council dwellings dating back to 2007/08 (the first year the revaluation reserve was introduced). This analysis by the council identified an adjustment of £16.1m (for all years cumulatively to 2019/20) and following our audit work this was revised to £15.9m. This has been transacted in-year as an adjustment between the Capital Adjustment Account and the Revaluation Reserve. According to the Council’s workings, the Revaluation Reserve at 31/3/18 would be £10.1m and at 31/3/19 would be £14.2m. Therefore the impact would be expected to be material. The appropriate treatment in line with the CIPFA Code would be to recognise a prior period adjustment, including restatement of opening balances as at 1 April 2018. We have requested that the Council account for a full restatement in line with the CIPFA Code but management declined to do this. We understand that this was due a lack of capacity for the Council to complete the additional work required and a desire to conclude the 2019/20 audit. We are unable to assess the full impact of this error but concluded that it is highly likely to be material. This would be expected to impact the CIES, MIRS, Cashflow Statement, the PPE note, Unusable Reserves note and other related notes. There is no impact on the face of the Balance Sheet. We therefore expect that our audit opinion will be modified in this respect. ***St George’s*** We also challenged the valuation of the St George’s asset – see separate reporting on this from page 11 onwards.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimates in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuations of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	• As part of our audit work we: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.	As discussed under 'Covid-19' above, we will refer to the material valuation uncertainties for the pension fund property investments which impact on the net defined benefit liability in our audit report as an emphasis of matter. This does not constitute a qualification of the opinion. We identified one control deficiency related to a lack of review/challenge by management over the experience item included in the actuary's report.

Audit of the Financial Statements

Other Audit Risks - continued

Risks identified in our audit findings report	How we responded to the risk	Findings and conclusions
Accounting for assets and liabilities in respect of St George's shopping centre Gravesham has the freehold interest on St George shopping centre, which was held as an investment asset by the Council at 31 March 2018, valued at £3.5m. As part of its regeneration plans, Gravesham entered into a complex lease and lease-back agreement with investor Aviva. On 11 June 2018, the Council leased St George's to Aviva for 150 years with a peppercorn rent of £1 per year, and a break clause after 50 years. Simultaneously, Aviva leased it back to the Council for 50 years, with annual rent of £1.15m due from the Council to Aviva. Estimated payments from the Council to Aviva totalled £131 million before discounting for net present value over the 50 year lease. In accounting for this in 2018/19, the Council derecognised St George's Shopping Centre as an Investment *(continued)*	The transactions which occurred in the prior year have an ongoing impact on this year's opening balance for the finance lease asset value (within Property, Plant and Equipment) and the finance lease liability value, as well as the value of the asset and liability at the balance sheet date at 31 March 2020. During the 2019/20 audit the audit team raised various challenges around the accounting for these transactions. The key challenge was whether there was, in substance, a disposal of the asset. If the lease and lease-back transactions are linked, and control of the asset does not pass to Aviva, this indicates that, in substance, there was not a disposal and reacquisition of the asset and the finance lease is, instead, a financial instrument for financing the asset. Following our challenges, management obtained accounting advice from Link and determined that the arrangement was in substance a financing arrangement rather than a lease. This approach significantly changes the accounting treatment and means that a prior period adjustment is necessary to correct the 2018/19 entries. We raised further challenges including the non-inclusion of inflation estimates in calculating the effective interest rate (EIR), and the assessments relating to whether an embedded derivative (prepayment option) was required to be separated from the host contract. Management later obtained accounting advice from Worth *(continued)*	***Accounting for the liability*** Following our challenges, management proposed revised accounting treatment. This involved the recognition of a financial liability which management have assessed as being £23.5m which reflects cash received by the council. We were made aware of correspondence which indicated additional payments made by the Council's commercial partners. This included £14.5m paid to the previous leaseholder of St George's, along with a range of other payments. Management determined that these amounts should not be recognised as part of the liability in the accounts, because in their view the payments made were outwith the Council's accounting boundary as they did not make any payments or receive any income in their books and records which reflect these transactions. Our view was that we were unable to obtain sufficient evidence to confirm whether the council's accounting judgement (eg to exclude these amounts from the council's accounts) was appropriate. If a different accounting treatment were taken, the impact could be material (up to £28.2m). The nature of the impact would vary for different elements of the payments but *(continued)*

Audit of the Financial Statements

Other Audit Risks - continued

Risks identified in our audit findings report	How we responded to the risk	Findings and conclusions
Accounting for assets and liabilities in respect of St George's shopping centre (continued) *(continued from previous page)* Property asset and subsequently recognised it as an acquisition of an operational asset. In accounting for the 'acquisition', the Council valued the asset at £94 million (the value the Council calculated the net present value of the finance lease to be, see below), and then immediately impaired it by circa £84m to arrive at an asset value, as an operational asset, of £9.84 million. Regarding the lease payments, with an estimated 3% inflation per year (at the time), then over 50 years of lease payments the Council would pay Aviva £131 million. The Council adjusted this total for the value of lease incentives and discounted it using the EU state aid rate of 0.86% to arrive at a Net Present Value of £94m. Gravesham recognised the lease obligation as lessee of a Finance lease.	*(continued from previous page)* Technical Accounting Solutions. We raised some further challenges particularly around the value of the amount to be recognised as principal (which does not impact the cashflows of the arrangement but impacts the accounting treatment including the amount to be recognised as interest) and continued to engage with officers to discuss the proposals. As part of our audit work we: • Reviewed the revised accounting treatment for the financial liability including EIR and amortised cost calculations • Reviewed management's assessment regarding the embedded prepayment option • Reviewed the revised accounting treatment and valuation of the shopping centre asset	*(continued from previous page)* could potentially impact all four primary statements to varying degrees (some materially). However, we were unable to confirm whether there is an error or errors, or the value of such error(s). As a result, our audit opinion was modified. We also reviewed the council's EIR and amortised cost calculations. There is judgement involved in selecting appropriate estimates of future RPI rates to use when estimating the EIR, and the council determined that it was appropriate to use ONS data to 2022, the Office for Budget Responsibilities forecast to 2028 and thereafter the Bank of England target of 2% for all future years. The council deemed it reasonable to use a single set of calculations for both years given the years had already passed, and we understand they intended to updated this for each subsequent balance sheet date. We would instead have expected the rates to reflect market expectations as at inception and as at each subsequent balance sheet date. We obtained relevant rates from our in-house actuary, which were different to those used in the council's estimate. However, given the uncertainties around the value of the principal amount as referred to previously, we could not assess whether the principal amount was correct and therefore whether the EIR and related entries are accurate. We therefore did not perform any additional testing to quantify the impact of the issue identified regarding RPI rates as this would not have changed our overall conclusion, which was to qualify the accounts. ***Embedded derivative*** The arrangement with Aviva included a prepayment option. Under IFRS 9, the council was required to assess whether this is 'closely related' to the host contract – if not, it should be accounted for separately at fair value.

Audit of the Financial Statements

Other Audit Risks - continued

Risks identified in our audit findings report	How we responded to the risk	Findings and conclusions
Accounting for assets and liabilities in respect of St George's shopping centre (continued) *(see previous page)*	*(see previous page)*	*(continued from previous page)* Management provided a comparison of the discounted cashflows both before and after the prepayment is made, comparing the difference to the total cashflows of the arrangement. Based on this management's assessment is that the derivative is closely related and does not require separating. Management also considered IFRS 9 B4.3.8 (f), however in our view this is not relevant as the host contract is not a lease in accounting terms. We considered the assessment of discounted cashflows before and after the prepayment. Our view was that the analysis did not support an assessment that the derivative was closely related. The change in discounted cashflows should be compared to the prepayment amount, not the total cash flows. The differences are greater than 5% and therefore our view would be that it is not closely related. However, as previously noted, we were unable to obtain sufficient evidence to verify the calculation of the EIR and this therefore also impacted on the assessment around the derivative. Therefore we were unable to verify whether the 'closely related' test was met or not. As we were also unable to assess if the impact would be material, this formed part of the modification of our audit opinion. ***Accounting for the asset*** We were satisfied with management's assessment that it was appropriate to transfer the asset from investment asset to operational asset, as the purpose for holding the asset had changed. Previously the asset was held for earning of rental income and now it is held for the purposes of regeneration. Therefore, under the CIPFA Code it cannot be classified as an investment property. As the asset is now held as an operational asset, annual revaluations are not required unless there is evidence to suggest the value of the asset may have changed materially from the prior year. The valuer originally declined to re-value the asset as at 31 March 2020 on the basis that

Audit of the Financial Statements

Other Audit Risks - continued

Risks identified in our audit findings report	How we responded to the risk	Findings and conclusions
Accounting for assets and liabilities in respect of St George's shopping centre (continued) *(see previous page)*	*(see previous page)*	*(continued from previous page)* as an operational asset 5 years can pass between valuations and the valuer did not believe the value of the asset has materially changed since the prior year, therefore the valuation was held at the previous net book value. We challenged this as part of the original audit, and the valuation was revised from £9.6m to £5.4m. Following the change in accounting treatment for the Aviva transaction the council decided to obtain further revised valuations from a new valuer as at 31 March 2019 and 31 March 2020. Based on this, revised valuations of £40k as at 31/3/2019 and £35k as at 31/3/20 were reflected in the original set of revised accounts. The reason for the significant reduction in value was due to the revised valuations incorporating the payments due to Aviva, to reduce the overall net income anticipated and therefore the valuation of the asset. The valuation reports also included an estimate of the leasehold interest as at 31/3/20 being an effective liability of £6.4m. We challenged the council about why this was not recognised in the accounts. Management confirmed that their judgement was that to separately recognise a negative amount on the council's balance sheet would in effect be a double counting given the liability is already recognised separately. We were satisfied that this judgement appeared to be logical - although the accounting for the Aviva arrangement is not that of a lease, it would appear to be inextricably linked to the asset. However, by the same logic, our view would be that including the Aviva payments in the valuation of the asset at all would also appear to be double counting as the liability is recognised separately. Following our challenge, management agreed to revert to the previously agreed valuations (£9.8m as at 31/3/19 and £5.4m as at 31/3/20) to avoid this apparent double counting.

Audit of the Financial Statements

Other Audit Risks - continued

Risks identified in our audit findings report	How we responded to the risk	Findings and conclusions
Accounting for assets and liabilities in respect of St George's shopping centre (continued) *(see previous page)*	*(see previous page)*	*(continued from previous page)* ***Amendments*** A significant level of amendments were made to the accounts to correct the previous accounting treatment. The changes also resulted in a significant prior period adjustment to correct the 2018/19 entries. Management also included a disclosure to meet the requirements of the CIPFA Code and IAS 8 to disclose the nature and amount of the restatements. We raised some improvement points in terms of the completeness of disclosures in particular with regard to changes within disclosures notes and management agreed to make further enhancements.

Audit of the Financial Statements

Audit opinion

We gave a qualified opinion on the Council's financial statements on 28 February 2024.

Preparation of the financial statements

The Council presented us with draft financial statements in July 2020 well in advance of the amended sector deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to the majority of our queries during the course of the audit.

The Covid-19 pandemic had an impact on the audit. Both Council and audit staff had to work remotely throughout the main audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team, and alternative procedures were used where necessary. Inevitably in these circumstances resolving audit queries takes longer than a face-to-face discussion.

The audit was subsequently significantly delayed due to the complexity of the issues identified relating to the HRA revaluation reserve, and in particular the accounting treatment for the financing arrangements related to the St George's Shopping Centre. These issues were partially resolved but ultimately resulted in the qualification of our audit opinion. A fee variation was agreed due to the significant additional time that was required to be in put to the audit to resolve these areas.

Issues arising from the audit of the financial statements

We reported the detailed findings from our audit work to the Council's Finance and Audit Committee as those charged with governance in our Audit Findings Report on 21 December 2023, along with an update in our Audit Findings Addendum which was issued electronically on 26 February 2024.

In addition to the key audit risks reported above, we identified a number of issues/adjustments throughout our audit that we have asked the Council's management to address for the next financial year. Please see Appendix B for full details.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and alongside the draft Statement of Accounts in July 2020.

Due to the significant amendments to the accounts made to reflect audit findings, and the passage of time, the final version of the Narrative Report was updated. We also requested that management update the Annual Governance Statement in the light of the new knowledge about the St George's transaction, and management made this update via an addendum to the Annual Governance Statement.

All three documents were prepared in line with the CIPFA Code and relevant supporting guidance. Except for the possible effects of the matters described in the basis for qualified opinion section of our audit report, we confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

Due to the time elapsed between the financial year and the audit report date, we were no longer required by the NAO to complete any Whole of Government Accounts procedures for the 2019/20 accounts.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Gravesham Borough Council in accordance with the requirements of the Code of Audit Practice on 28 February 2024.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in December 2024, we agreed recommendations to address our findings.

Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium term financial viability Over the last decade the Council experienced significant and sustained cuts to funding whilst demand on services has risen. By the end of 2019/20 the Council will have experienced a cash reduction in government funding levels of some £5m (65%) since 2010/11, (excluding the funding derived from the New Homes Bonus Scheme). The Council has met the financial challenges with robust arrangements and sound financial control. The Council ended 2018/19 in a favourable position, enabling budgets totalling £185k to be approved for carry forward into 2019/20. At the end of Quarter 3 in the current year, there is a projected underspend for the year of £1.066m. We will review the Council's arrangements for setting the Medium-Term Financial Plan and examine underlying assumptions and dependencies for robustness.	As part of our work we have: • Reviewed the outturn for 2019/20 • Reviewed the 2020/21 budget including both the original budget and the impact of Covid-19 • Reviewed the arrangements for medium-term financial planning • Reviewed the sustainability of the Council's reserves Note that the bulk of our work to address this risk was carried out during 2020, as our conclusion reflects arrangements during 2019/20 rather than those in later years. The revised impact of the St George's transaction, which was not known at that time, is detailed as a separate significant risk.	The impact of the revised accounting for St George's was not identified in 2019/20, so was not included in budgets, the Medium-Term Financial Plan or the provisional outturn. The revised accounting treatment has had an impact on the council's finances, with general fund reserves being lower than those included in the draft accounts and ongoing pressures for finance costs in future years. Our findings on the St George's transaction are documented in more detail against the St George's Value for Money risk. The Council delivered a balanced budget in 2019/20 and set a Medium-Term Financial Plan that indicated it would continue to deliver a balanced budget through to the end of 2020/21. The Council put in place robust arrangements to ensure that risks and uncertainties were given due consideration in short and medium-term financial planning and the impact was effectively modelled, drawing on external support where knowledge gaps or wider unknowns are identified. Notwithstanding this, the commercial risks were significant given the Council's exposure from the investment strategy, and this risk could grow if planned investments in the tourism and hotel industry proceeded. The financial outlook for the Council remained challenging. The outturn position for 2019/20 was broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand the impact of decisions taken was strong, and plans had been put in place for improvement to processes where significant variances were identified. The Council continued to face financial risk over the medium term and continued to develop plans to respond to this risk. As a result of Government Funding and initiatives, prior year underspends and prudent financial planning included setting aside contingencies in the budget-setting process. This means the Council had sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 *(continued)*

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium term financial viability (continued) (See previous page)	(See previous page)	arising from the Covid-19 pandemic and were not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which some comparable local authorities were having to consider. In the medium term, the picture remained far more uncertain as the longer-lasting impacts of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remained significant unknowns. Management were conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpinned future investment decisions from use of reserves. It would have been critical that the risk associated with future investment decisions was continually reassessed as the unprecedented economic crisis, and its impact in particular on retail and commercial rents as well as tourism and leisure, continued to play out. The long-term impact of the re-shaping of the economy and its impact on town and shopping centres was unknown, and it would have been critical that business cases supporting investment decisions were comprehensively updated based on the latest available forecasts. Based on our findings we did not identify any impact on our Value for Money Conclusion.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Investment risk As part of the Council's strategy to respond to a decade of significant and sustained cuts, over the last four years the Council has increased its exposure to investment risk and commercial risk through the diversification of its investment activity and Property Acquisition Strategy. The Council holds £20m of investments in Multi-Asset Funds and Property Funds. Whilst this provides greater opportunities for the Council to generate investment yields beyond those offered by traditional banks and building societies, it also provides greater exposure to fluctuations in the capital value of the investments held. To date, the Property Acquisition Strategy has secured interests in seven commercial property holdings valued at £22m, generating some £1.5m in rental income per annum. The strategy does, however, expose the Council to risks around movements in commercial property values and the strength of financial standing of the tenants of these properties. We will review the Council's arrangements for identifying, assessing and mitigating the risk associated with these investments.	As part of our work we have: • Reviewed the investments in multi-asset funds and property funds, and commercial property holdings, including the amounts invested, rates of return, fair value movements, and expectations for future returns • Reviewed the Council's arrangements for identifying, assessing, and mitigating the risk associated with these investments • Reviewed the Council's investment strategy for 2019/20 onwards, including proposals such as The Charter and a potential investment opportunity in Greenwich Note that the bulk of our work to address this risk was carried out during 2020, as our conclusion reflects arrangements during 2019/20 rather than those in later years. The revised impact of the St George's transaction, which was not known at that time, is detailed as a separate significant risk.	The Council had arrangements for assessing the risk associated with its investment strategies and to date had managed this risk well. Following the pandemic, the risk environment changed significantly. Whilst the Council had a strong foundation it would have been important to ensure the 'pessimism' of the current economic environment was comprehensively factored into future investment decisions and business case analyses, to enable the Council to continue its strong track record in this area and avoid commercial risks becoming a financial burden on the tax-payer. You continued to be proactive in identifying and implementing new and innovative projects to deliver your investment objectives and as furtherance to your activity to secure long-term financial sustainability. We were satisfied the arrangements in place were appropriate in managing the associated risks. Based on our findings we did not identify any impact on our Value for Money Conclusion.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The Council's arrangements in relation to St George's Shopping Centre Following Grant Thornton's challenge to the accounting treatment of the St George's transaction, Grant Thornton and the Council sought external advice on the accounting treatment. During this period, we have seen the Covid-19 pandemic and the cost-of-living crisis which has adversely affected the financial effect of the transaction. We have identified an additional significant VFM risk relating to the council's arrangements in relation to this transaction. Our work has focused on the governance arrangements in place at the time of the transaction and involved a review and analysis of the evidence available.	As part of our work we have: • Carried out an extensive documentary review • Undertaken a range of interviews with current officers and members of the Council and consultation of draft versions of our governance report	The Council's arrangements relating to the St George's transaction have not secured value for money through economy, efficiency, and effectiveness in the use of resources. The issues identified in our report are evidence of weaknesses in proper arrangements for: • Acting in the public interest, through demonstrating and applying the principles and values of sound governance; • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management; • Reliable and timely financial reporting that supports the delivery of strategic priorities; • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore issued a qualified 'adverse' Value for Money Conclusion.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	10 March 2020
Audit Findings Report	21 December 2023 Addendum issued on 26 February 2024.
Annual Audit Letter	16 July 2024

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	48,536	99,418	46,236
Total fees	**48,536**	**99,418**	**46,236**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £41,036 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table on the following page.
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Our final fee variation is subject to PSAA approval

Fees for non-audit services

Service	Fees £
Audit related services	* indicative fees which are still to be finalised
Certification of Pooling of Housing Capital Receipts return	
• 2019/20	5,000
• 2020/21	5,000*
• 2021/22	7,500
• 2022/23	10,000
Certification of Housing Benefits claim	
• 2019/20	26,600
• 2020/21	37,000
• 2021/22	45,000*
• 2022/23	45,000*
Non-Audit related services - none	

Non-audit services

Note that fees above are expected to be finalised as part of the anticipated 'backstop' process.

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

A. Reports issued and fees continued

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

Audit area	£	Rationale for fee variation
Scale fee published by PSAA 2019	41,036	This is this is the PSAA scale fee and is unchanged from 2018/19.
Enhanced audit procedures for Property, Plant and Equipment	1,750	Response to Financial Reporting Council (FRC) requirements
Enhanced audit procedures for Pension Liabilities (IAS19)	1,750	Response to Financial Reporting Council (FRC) requirements
Raising the bar	2,500	Response to Financial Reporting Council (FRC) requirements
Covid-19 impact	6,000	Additional audit work required due to the impact of Covid-19
Technical accounting issue – St George's transaction	12,000	Additional audit work relating to the accounting for the St George's transaction
Value for Money	8,000	Additional VFM work relating to the St George's transaction
PPE valuations – use of auditor's expert valuer	5,500	This reflects the cost of engaging an auditor's expert valuer as part of our work on PPE valuations
HRA revaluation reserve	4,604	Additional audit work required due to the recreation of a revaluation reserve for HRA revaluations
Revised audit fees 2019/20 (excluding VAT) – to 31 July 2023	**83,140**	**This reflects the total for work completed up to 31 July 2023 including the scale fee. This variation has been approved by PSAA.**
Valuations and depreciation errors and adjustments	8,684	This reflects additional audit work required due to the various errors and adjustments related to PPE valuations and depreciation. Given the nature of these adjustments, various areas of the accounts were impacted and additional audit work was required to obtain sufficient assurance over each of these areas. This also includes additional audit time linked to the qualification for the HRA revaluation reserve.
PPE valuations – use of auditor's expert valuer (St George's revised valuation)	2,200	This reflects the cost of engaging an auditor's expert valuer as part of our work on PPE valuations, due to the council's decision to obtain new valuations for the St George's asset
Cashflow statement	1,403	This reflects additional audit work required due to various changes to the cashflow statement
Disclosure amendments due to errors	3,991	This reflects additional audit work required due to the relatively high level of amendments required to disclosures
Revised audit fees 2019/20 (excluding VAT) – final	**99,418**	**This reflects the total for work completed during the course of the audit including the scale fee. This variation is subject to approval by PSAA.**

B. Action plan

We identified 10 recommendations for the Council as a result of issues identified during the course of our audit. We will report on progress on the finalised recommendations during the course of the next audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● High	**St George's shopping centre accounting – Value for Money** Ultimately, the Council's arrangements relating to the St George's transaction have not secured value for money through economy, efficiency, and effectiveness in the use of resources.	• The Council should carefully consider our VfM report to ensure all members understand the events and conditions that led to the issues set out in this report, so that lessons are learnt, and assurances are provided that arrangements are in place that would mitigate or avoid such a situation happening again. • The Council should finalise the changes planned to accounting treatment and the early termination of the Aviva/Reef deal, confirm the overall financial impact and the consequences for the Council's financial sustainability, and put in place appropriate plans and arrangements to mitigate financial sustainability risks. **Management response** The report has been formally considered by the Finance & Audit Committee and shared with both respective Group Leaders to ensure that current Members have been able to consider, scrutinise and seek further information and assurances on the report. Since 2018 the council has continued to review and develop its governance arrangements including: • Making enhancements to Member Induction and Training Programmes to increase skills and capacity to review and scrutinise proposals made for decision. • Delivering focused Member briefings on areas for significant decision ahead of any decisions being made, to enable a good understanding of the decision to be made and enable any required clarifications to be sought. • Continuing to make use of external expertise where the knowledge and skills required to bring forward project proposals for decision are not held in-house. • Improvements to the content and format of decision reporting. Following receipt of the VfM Report the council will look to adopt a common format for reporting business cases to ensure consistency in approach and assist Members in their decision making. The accounting treatment has been finalised and agreed with the External Auditor. Termination of the Aviva/Reef deal took place on 16th October 2023. The overall financial impact has been confirmed and reflected in the council's Medium Term Financial Plan. Activity to manage financial sustainability risk of the council's General Fund is directed by the approved Medium Term Financial Strategy and monitored through quarterly budget monitoring, annual budget setting and subject-specific reports to Cabinet.

Controls

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

B. Action plan continued

Assessment	Issue and risk	Recommendations
High	**St George's shopping centre accounting** The revised accounting has resulted in significant adjustments to the accounts including a restatement of prior year comparatives.	Where any complex arrangements are entered into, ensure that appropriate accounting advice is obtained if the council do not have sufficient expertise in-house. **Management response** 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.
Medium	**Manual adjustments** We identified some manual adjustments when mapping the Trial Balance to the accounts. Manual adjustments increase the risk of error. A manual process is used to classify balances as either debtor/creditor based on whether the overall balance is a debit or a credit. Our testing identified balances which were incorrectly classified which suggested that balances were not reviewed in any detail before being reclassified. Additionally, the ledger does not have a separate code for short term/long term borrowings, so a manual adjustment is made to split these out for the accounts.	Review the debtors and creditors process in order to ensure the accuracy of any manual adjustments made between debtors and creditors. Where possible, ensure that all accounts mapping is included on the ledger to reduce the need to make manual adjustments. **Management response** 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.
Medium	**IT General Control - Superuser Admin access to Northgate** Superuser access to Northgate has been identified with users who are involved in the business process. This creates a risk of inappropriate access which could result in misstatement or fraud. Ideally, individuals with super user access should not be involved in transactional business processes.	Ensure there is a regular, documented review of superuser admin access to ensure no inappropriate access has been made. Ensure there is a relevant policy in respect of superuser access to reduce the potential risk of fraud. **Management response** A review of user access controls is underway to respond to the issue identified.

Controls

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

B. Action plan continued

Assessment	Issue and risk	Recommendations
Medium	**Review of payments near year end** Our expenditure testing identified an error where a payment was made prior to year end relating to expenditure for 2020/21, but this was not accounted for as a prepayment. While we were satisfied the error appeared to be isolated, this identified a gap in controls as payments made in March were not reviewed as part of closedown procedures, which increases the risk of error.	A review of payments made in March should be included as part of closedown procedures to reduce the risk of prepayments not being identified. **Management response** 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.
Low	**Payroll - Control Deficiency of unsigned starter form** The Council's payroll service is outsourced to the Medway Council shared services. From looking at the process notes we received from the Medway Council audit team, we expect that all starter forms / employment contracts will have a start date and will be signed by both the employee and the manager as proof that that the starter had begun employment on that date. However when we received this sample evidence, the starter form didn't have a start date. When we received the copy that did have the start date, it wasn't signed by the employee. It was signed retrospectively after we had requested the evidence.	Ensure all starter forms are signed by both the employee and the manager and have a documented start date. **Management response** 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.
Low	**Review of expert's reports** There is a pensions experience item which is included in the Barnett Waddingham report which is material and an unusual variance from last year (as the item was a nil balance and hence is new this year). This was not challenged by management. This indicates that the Council have not reviewed the report in order to ensure they understand any particular variances that may be distorting their financial accounts. We also identified some evidence of a lack of challenge over the work of the valuer, including a reliance on Reef for source data.	Perform a review of all reports provided by management experts such as the actuary and valuer and ensure any unusual movements are queried to understand the reasons behind these and ensure they are valid. **Management response** 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.

Controls

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

B. Action plan continued

Assessment	Issue and risk	Recommendations
Low	**PPE valuations – source data** We were unable to verify source data for the passing rent of leases which had been updated (i.e. through a Rent Review) and had to take alternative procedures to verify the amounts through receipts and invoices. We were also unable to obtain sufficient appropriate evidence for the source data inputs for valuation of garages, as screenshots were not retained.	A full audit trail should be retained to support key inputs to all valuations. **Management response** 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.
Low	**Valuation date** Where valuations are undertaken as at 1 April, there is an increased risk that values may have moved materially by year end. This can increase workload both in terms of obtaining updated valuations where necessary, as well as additional audit work required over movements in year.	The council should consider moving all valuations to 31 March. **Management response** This recommendation will be discussed with the internal Valuation Staff and implementation considered as part of the preparations for the 2022/23 Financial Statements.
Low	**Debtors and Creditors** Full reconciliations/listing of debtors and creditors at 31 March 2020 had not been prepared by management, and this resulted in a number of reselections being required in our testing.	Review the debtors and creditors process in order to be able to identify the balances as at year end and provide cleansed listings for audit **Management response** This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements.
Low	**Componentisation** We identified a number of assets where the land element had been assessed as £1 with the remainder of the value assigned to the buildings element. There is a risk that depreciation may be understated if this split is not appropriate, although we were satisfied there was no material risk.	Management should consider whether the split between the land and buildings elements of such assets is compliant with the Code. **Management response** This recommendation will be considered as part of the preparations for the 2022/23 Financial Statements.

Controls

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

B. Action plan continued

We have identified an additional 4 recommendations for the Council as a result of issues identified during the course of our audit, in addition to those reported in our original Audit Findings Report. We have not yet agreed all our recommendations with management, but management responses have been requested. We will report on progress on the finalised recommendations during the course of the next audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

Controls

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

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