



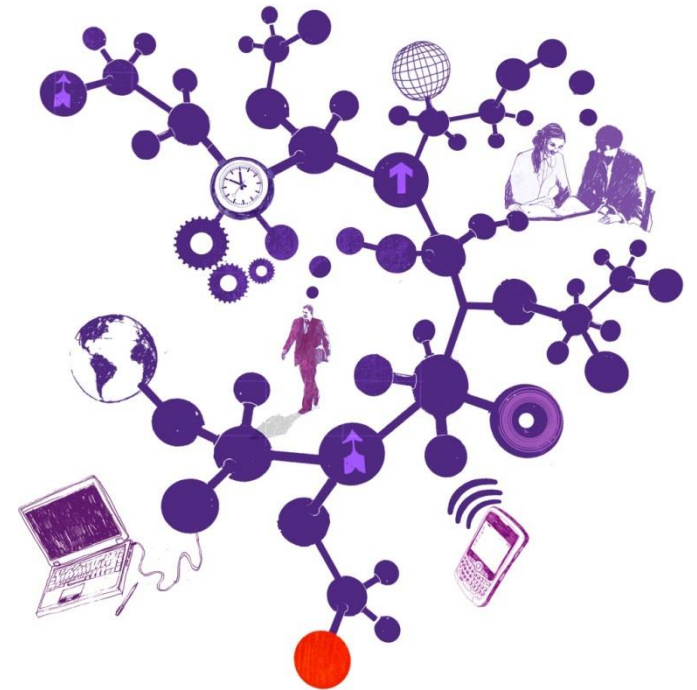
The Audit Plan for Swale Borough Council

Year ending 31 March 2016

June 2016

Iain Murray
Engagement Lead
T 020 7728 3328
E iain.g.murray@uk.gt.com

Trevor Greenlee
Manager
T 01293 554071
E trevor.greenlee@uk.gt.com



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 the Council 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.

Swale Borough Council
East Street
Sittingbourne
Kent
ME10 3HT

8 June 2016

Dear Nicholas

Audit Plan for Swale Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Swale Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Iain Murray

Engagement Lead

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100

www.grant-thornton.co.uk

Chartered Accountants

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Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- In his 2015 Autumn Statement the Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding for local government over 5 years.
- For Swale the provisional funding settlement in December 2015 indicates that funding from revenue support grant in future years will be significantly lower than previously anticipated. There is also uncertainty about the level of future funding through New Homes Bonus,
- You will continue to need a robust planning framework to manage these pressures and the planned changes to funding arrangements over the medium term.

2. Regeneration

- You are currently working with private sector partners on a major regeneration programme in Sittingbourne.

3. Delivering efficient and effective services

- In recent years your budget process has been supported by efficiency savings, including from shared services arrangements, contract savings and internal efficiencies. Your financial plans require further efficiency savings in future years.
- The Council is currently working on a range of transformation and income generation initiatives.

4. Devolution

- Proposals for local government devolution in Kent are currently being developed, with a number of different themes emerging across the County.
- Potential areas of focus locally include skills and business growth.



Our response

We will;

- update our understanding of your financial planning framework as part of the work to support our value for money conclusion.

We will;

- continue to liaise with officers to update our understanding of the Council's plans.
- consider any issues which relate to our value for money conclusion for 2015/16

We will;

- consider the action taken by the Council to review the efficiency of services as part of the work to support our value for money conclusion..

We will;

- monitor progress with any devolution proposals and the impact on the Council's strategic plans.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will require a change in the basis of valuation for surplus assets. There may also be an impact on the valuation of your investment property assets.
- There are a number of additional disclosure requirements under IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year. This replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

4. Other requirements

- You complete a claim for housing benefit subsidy grant on which audit certification is required



Our response

We will;

- keep you informed of changes to the financial reporting requirements for 2015/16 through discussion and invitations to our technical update workshops.
- discuss the issues arising from the introduction of IFRS13 at an early stage, and provide feedback on your draft disclosures to meet the requirements of the new standard.

We will;

- review your arrangements for producing the narrative statement and the AGS, and consider whether these are consistent with our knowledge

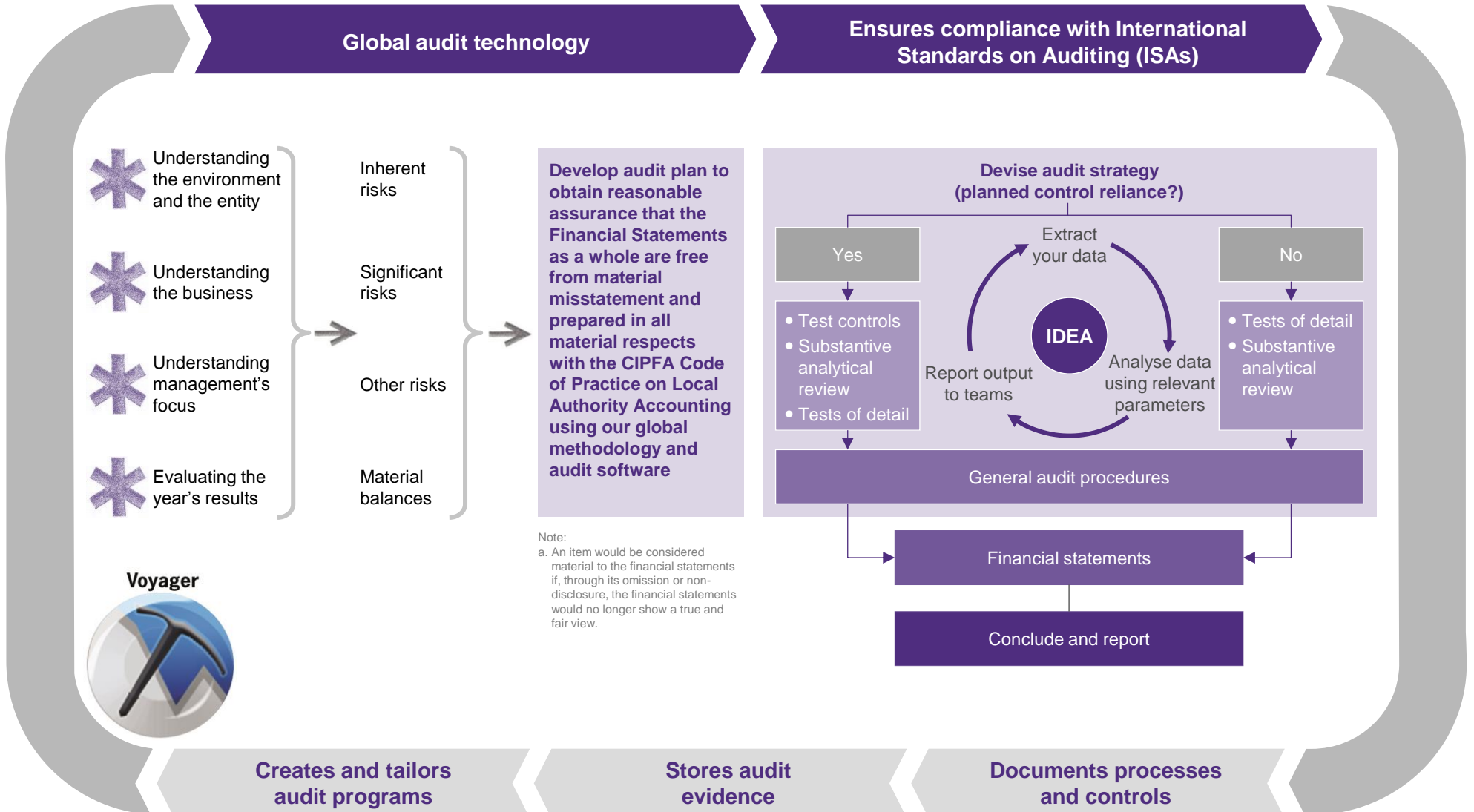
We will;

- continue to work with you to help identify ways of streamlining the process for preparing the financial statements.
- aim to complete all substantive work on our audit of your 2015/16 financial statements by 31 July 2016 as a "dry run" in preparation for the acceleration of the statutory timetable in future years.

We will;

- certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For the purposes of planning the audit we have determined overall materiality to be £1,718,000 (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450 auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £85,000.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • testing of journal entries • review of accounting estimates, judgments and decisions made by management • review of any unusual significant transactions.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Substantive testing of creditor balances • Cut-off testing to ensure that transactions have been recorded in the correct accounting period. • Review of yearend reconciliations to ensure completeness of information in the accounts.
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information
Valuation of property, plant and equipment	Revaluation measurements not correct	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of management's processes and assumptions for the calculation of the estimate, including review of the work performed by management experts • Review of the competence, expertise and objectivity of any management experts • Testing to ensure information on revaluations is correctly input to the Council's asset register • Evaluation of management's processes to ensure the carrying value of assets not revalued during the year is not materially different from current value at the balance sheet date

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Employee remuneration: Valuation of pension fund net liability	Pension fund assets and liabilities incorrectly valued.	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund liability is not materially misstated • Review the competence, expertise and objectivity of the actuary performing the pension fund valuation • Gain an understanding of the basis for the valuation and undertake procedures to confirm the reasonableness of the actuarial assumptions made • Review the consistency of disclosures in the financial statements with the actuarial report

Other risks identified (continued)

Other material balances and transactions

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

- Investments (long term and short term)
- Cash and cash equivalents
- Usable and unusable reserves
- Long term liabilities
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- CIES: Financing and investment income and expenditure
- CIES: Taxation and non-specific grants
- Segmental reporting note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Other audit responsibilities

We will

- undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and that the disclosures are in line with the requirements of the CIPFA Code of Practice.
- carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- give electors the opportunity to raise questions about the accounts and consider and decide upon objections relating to the accounts

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- illustrative significant risks identified and communicated by the NAO.

Our definition of significant risks, based on the definition in the NAO's Code of Audit Practice, is: *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Reporting

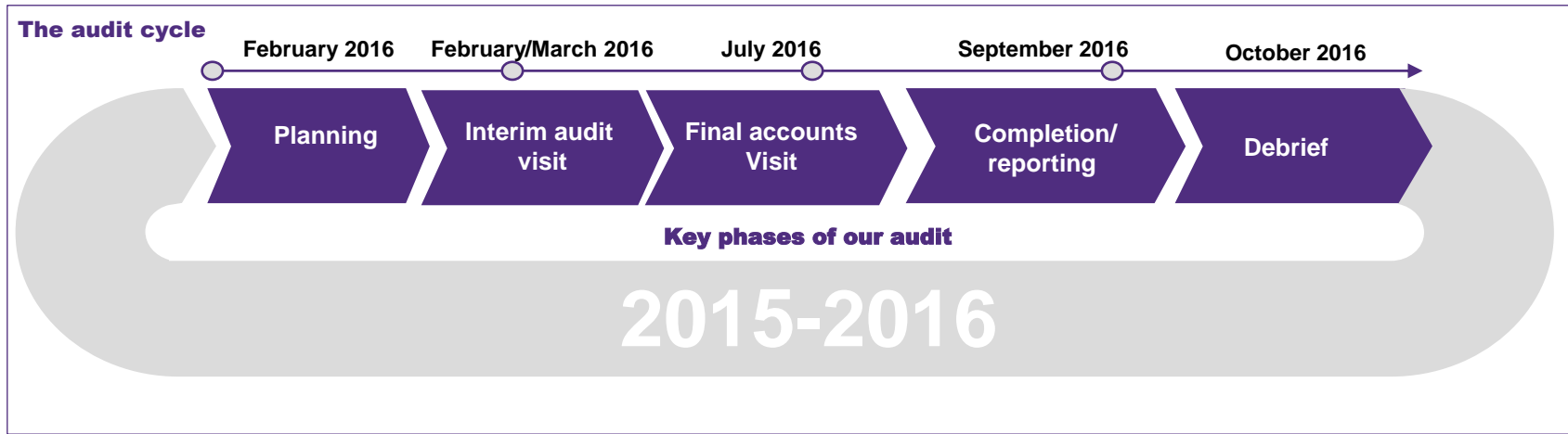
We will continue to review your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
You are facing further significant reductions in government funding in future years. You will need an effective financial planning framework to manage the impact of these changes.	Sustainable resource deployment	We will update our understanding of your medium term financial planning framework and your planned approach to addressing future reductions in central government funding.

Key dates



Date	Activity
February 2016	Planning
February/March 2016	Interim site visit
8 June 2016	Presentation of audit plan to Audit Committee
July 2016	Year end fieldwork
TBA	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2016	Sign financial statements opinion and VFM conclusion

Fees and independence

Fees

	£
Council audit	60,739
Grant certification	20,710
Total audit fees (excluding VAT)	81,449

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed information request list.
- The scope of the Council's activities, and of the audit, has not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited

Fees for other services

Service	Fees £
None	0

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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