

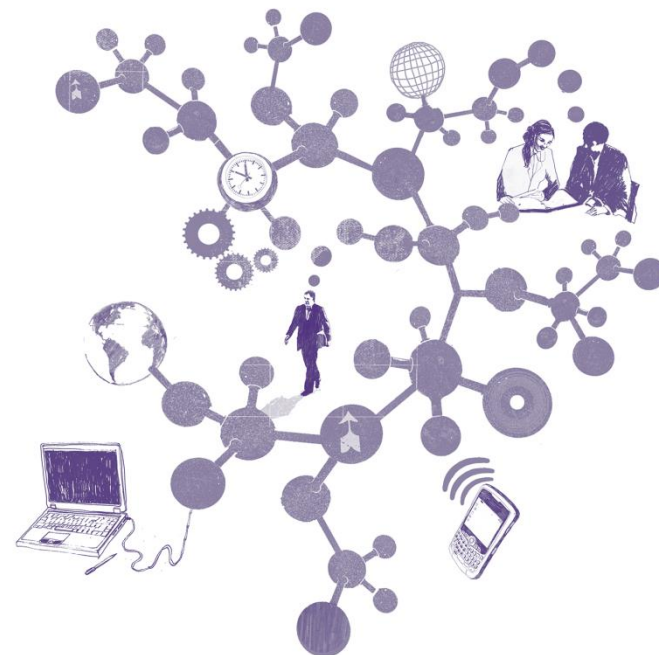
The Annual Audit Letter for Swale Borough Council

Year ended 31 March 2017

October 2017

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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	8
Appendices	
A Reports issued and fees	

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 13 September 2017.

Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code on 28 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2016/17 claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our 2016/17 Certification Report.

Working with the Council

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
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that could influence the economic decisions of a reasonably knowledgeable person.

We determined materiality for our audit of the Council's accounts to be £1,734,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as in our view users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £85,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

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
<p>Employee remuneration understated</p> <p>For all Councils employee remuneration is a significant element of total expenditure.</p> <p>We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested payroll information for a sample of employees to supporting documentation • reviewed yearend reconciliations to ensure the information in the accounts was complete • performed a trend analysis to assess the completeness of payroll information. 	<p>We did not identify any issues to report.</p>
<p>Operating expenses understated</p> <p>For all Councils operating expenditure is a significant element of total expenditure.</p> <p>We designed our work to address the risk that creditors had been understated or had not been recorded in the correct period.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested creditor amounts to supporting documentation • tested payments posted to 2017/18 to ensure that these had been posted to the correct accounting year. 	<p>Our sample testing identified one item appearing as expenditure in 2017/18 which should have been accounted for in 2016/17, but we concluded that there was no material issue for our opinion.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements..</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • reviewed the competence, expertise and objectivity of the specialist actuary performing the pension fund valuation • reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made • reviewed the consistency of disclosures in the financial statements with the actuarial report 	<p>We did not identify any issues to report.</p>

Audit of the accounts

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
<p>Valuation of property, plant and equipment</p> <p>For all Councils the valuation of Property Plant And Equipment (PPE) assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that PPE revaluation measurements were not correct.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> gained an understanding of system controls and performed a "walkthrough" of the key controls to assess if these were designed effectively reviewed management's processes and assumptions for estimating asset values, including review of the work performed for the Council by external valuers reviewed the competence, expertise and objectivity of the external valuers performed testing to ensure information on revaluations was correctly input to the Council's asset register for those assets which were not revalued in 2016/17, reviewed management's process to ensure that the value included in the financial statements was not materially misstated. 	<p>We did not identify any issues to report.</p>
<p>Financial statements</p> <p>In 2016/17 all Councils were required to make changes to the way income and expenditure is classified and reported in the accounts.</p> <p>These changes also required a restatement of the previous year figures.</p> <p>We designed our work to address the risk that these changes had not been implemented correctly.</p>	<p>As part of our audit work we reviewed;</p> <ul style="list-style-type: none"> the Council's process for making the required changes. the basis for reclassifying income and expenditure in the 2016/17 financial statements the restatement of the previous year figures. the new Expenditure and Funding Analysis (EFA) note to the accounts 	<p>We;</p> <ul style="list-style-type: none"> concluded that the Council had implemented all of the required changes agreed an amendment to the Council's workings to remove internal recharges from the Comprehensive Income and Expenditure Statement. This reduced both gross income and gross expenditure by £14m, but there was no impact on the Council's net reported financial position. A small remaining adjustment was not actioned; this adjustment would have caused significant additional work but would have had no net impact.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

We also review the Council's Annual Governance Statement. We concluded that this had been prepared in accordance with the relevant guidance and that the information it contained was consistent with our knowledge and with the accounts.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 13 September 2017.

The Council's draft accounts were approved for issue ahead of the national deadline of 30 June 2017. Both the accounts and the supporting working papers were prepared to a very high standard.

We agreed an amendment to remove internal recharges from the Comprehensive Income & Expenditure Statement. There were no other adjustments to the primary financial statements. A small number of amendments were agreed to disclosure notes.

The Council continues to be proactive in reviewing the presentation of the financial statements under the "decluttering" agenda, and to make good progress in preparing for the acceleration of the national accounts timetable from 2017/18, when draft financial statements will need to be produced by 31 May.

Other financial statement responsibilities

We are required to give an opinion on whether other information published with the audited financial statements is consistent with the accounts.

We considered the other information contained in the Council's Annual Financial Report. We concluded that this information was consistent with our knowledge and with the audited financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 key risks where we concentrated our work.

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial planning</p> <p>The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.</p>	<p>We updated our understanding of the Council's medium term financial planning framework and its planned approach to addressing future reductions in central government funding.</p>	<p>The Council has a history of sound financial management and maintains a Medium Term Financial Plan (MTFP) which is regularly updated and aligned with the annual budget-setting process.</p> <p>The Council achieved a gross revenue underspend on services of £1,419,000 in 2016/17. Current reporting indicates that it will again underspend against revenue budgets in 2017/18. This pattern of underspends against budget indicates that the overall assumptions within the MTFP remain prudent.</p> <p>The local government finance settlement for 2017/18 created additional pressures for the Council, as it faces significant reductions in future funding from New Homes Bonus. It also faces a substantial ongoing increase in the levy from the Lower Medway Internal Drainage Board. A balanced budget has been set for 2017/18 using a small contribution from general reserves, but further work is required to address the funding gaps for future years.</p> <p>The Council is taking a pro-active approach to address these pressures. It continues to develop alternative income streams, particularly through the Spirit of Sittingbourne regeneration scheme where additional income will be generated through the Council's move to a funding role. It is also taking action to deliver further efficiencies through an internal Transformation Unit, and working with a private sector partner to help maximise income from developing or selling Council assets.</p> <p>The Council has a clear understanding of the need to respond to changes in the framework for local government funding. The MTFP shows how the immediate financial pressures facing the Council can be mitigated through additional income streams in the medium term. However, uncertainties remain, for example around the future framework for business rates, and it will be important that the Council continues to maintain a robust financial planning framework.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	60,739	60,739	60,739
Housing Benefit Grant Certification	18,611	TBC	26,700
Total fees (excluding VAT)	79,350	TBC	87,439

Fees for other services

Service	Fees £
Audit related services	None
Non-audit services	None

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Reports issued

Report	Date issued
Audit Plan	May 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017
Certification Report	January 2018 (planned)



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