

Agenda

Extraordinary Audit Committee Meeting

Date: Monday, 17 April 2023

Time 7.00 pm

Venue: Council Chamber, Swale House, East Street, Sittingbourne, ME10 3HT*

Membership:

Councillors Derek Carnell (Chair), Simon Clark, Ann Hampshire, Angela Harrison, Mike Henderson (Vice-Chair), Denise Knights, Peter Marchington, Pete Neal and Richard Palmer.

Quorum = 3

Pages

Information about this meeting

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2. Apologies for Absence

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Aside from disclosable interests, where a fair-minded and informed observer would think there was a real possibility that a Member might be biased or predetermined on an item, the Member should declare this and leave the room while that item is considered.

Members who are in any doubt about interests, bias or predetermination should contact the monitoring officer for advice prior to the meeting.

Part B Reports for decision by the Audit Committee

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Issued on Wednesday, 5 April 2023

The reports included in Part I of this agenda can be made available in alternative formats. For further information about this service, or to arrange for special facilities to be provided at the meeting, please contact **DEMOCRATIC SERVICES** on **01795 417330**. To find out more about the work of the Committee, please visit www.swale.gov.uk

**Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

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Audit Committee Meeting	
Meeting Date	17 April 2023
Report Title	Internal Audit and Assurance Plan 2023/24
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Katherine Woodward – Head of Audit Partnership
Lead Officer	Katherine Woodward – Head of Audit Partnership
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. Approve the Internal Audit & Assurance Plan for 2023/24. This includes delegating to the Head of Audit Partnership authority to keep the plan current as set out in the appendix. 2. Note the Head of Audit Partnership’s view that the Partnership currently has sufficient resource to deliver the Plan and a robust Head of Audit Opinion. 3. Note the Head of Audit Partnership’s assurance that the Plan is compiled independently and without inappropriate influence from management

1 Purpose of Report and Executive Summary

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the audit Partnership to produce and publish a risk-based plan, at least annually, to determine the priorities for the year. The plan must consider input from senior management and Members and be aligned to the objectives and risks of the Council.
- 1.2 The purpose of this report is to set out the annual assurance plan 2023/24 to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and engagement delivered over the course of the year.

2 Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) sets out the requirement for the Head of the Audit Partnership to develop a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation’s goals.
- 2.2 The Audit Committee needs to obtain assurance on the effectiveness of the control environment, governance and risk management arrangements. The principal source of this assurance is derived from the annual assurance plan.

- 2.3 Standards explicitly support that the plan is flexible and responsive to emerging and changing risks across the year. Any proposed changes and the rationale for such changes will be communicated to Audit Committee Members.

3 Proposals

- 3.1 The appendix sets out the proposed plan for 2023/24, including background details on how we compiled the plan and how we propose to manage its delivery. The proposal is for the Audit Committee to consider and approve the plan.
- 3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.

4 Alternative Options Considered and Rejected

- 4.1 The Audit Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee’s role to formally consider and approve the plan. The Council could decide that it does not want a programme of work for the audit service, however, this would go against professional Standards.

5 Consultation Undertaken or Proposed

- 5.1 We consult with Managers, Heads of Service and Directors throughout the year as we undertake our work, but also specifically as part of the audit planning process. The plan attached represents the collective views of management and the audit service.

6 Implications

Issue	Implications
Corporate Plan	Mid Kent Audit’s work supports all Council activity and the wider Corporate Plan in evaluating governance
Financial, Resource and Property	The work internal audit does on behalf of Swale Borough Council, is carried out within agreed resources.
Legal, Statutory and Procurement	The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore, the Council must approve a plan to maintain regulatory conformance.
Crime and Disorder	No direct implications

Environment and Climate/Ecological Emergency	No direct implications
Health and Wellbeing	No direct implications
Safeguarding of Children, Young People and Vulnerable Adults	No direct implications
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering areas for audit review. In turn, audit findings will provide feedback on identification and management of risk.
Equality and Diversity	No direct implications
Privacy and Data Protection	We handled all information collected by the service in line with relevant data protection policies.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Internal Audit and Assurance Plan 2023/24

8 Background Papers

The appendix includes reference to the Public Sector Internal Audit Standards. Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

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Internal Audit & Assurance Plan 2023/24

Swale Borough Council

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Introduction

1. This risk-based internal Audit Plan for 2023/24 provides adequate coverage to enable an annual Head of Audit Opinion to be made at the end of the financial year.
2. It is important that this Audit Plan has the flexibility to adapt and adopt to the changes and business priorities as they develop during the forthcoming financial year.

Risk Assessments

3. The Public Sector Internal Audit Standards direct that audit planning is built upon a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. This Plan for 2023/24 represents the current views now, but it will be necessary to continue to reflect and consider the audit response as risks and priorities change across the year. A specific update report will be provided to Members midway through the year.

Global and Sector Risks

4. In considering global and sector risks the risk assessment draws on various sources such as the IIA and CIPFA.
5. This year will continue to be another challenging year for Local Government in terms of funding, managing additional recruitment and technological advancement, which in turn may impact on the adequacy and effectiveness of the governance, risk and control framework of the Council. A number of key areas which require consideration when planning the internal audit coverage are set out below. These areas cut across many of the activities carried out by the Council. These areas are not a full listing, nor are they in any priority order. Indeed many are not mutually exclusive of each other.

“Multi-channel” customer engagement: Partly as a result of COVID-19 but also as process changes through improved technology, councils will need to embrace cutting edge technology. Adopting a multi-channel approach to customer engagement will enable council services to be more readily available, more accessible and more transparent.

Commercialisation: Councils are being driven towards being more self-sufficient and cost effective, with pressure to close funding gaps and rebalance budgets. Councils



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will already be operating in different financial and more commercial environments which have been tested by the business disruption associated with the COVID Pandemic.

Cyber Security: As more services move on-line, risks and vulnerabilities are likely to increase. Cyber security is as much about awareness and behaviours as it is about network security. Resilience needs to be regularly and stringently stress tested across the organisation to ensure it is operating effectively.

Financial Viability: With Council's emerging from the pandemic and Brexit, Councils have been faced with the reality of unbalanced medium financial plans without including significant potential savings. This has been further exaggerated as the country faces a cost-of-living crisis and is on the fringes of recession. The challenge to ensure a balanced budget is becoming more difficult for all councils.

Staff Wellbeing: Since the COVID-19 pandemic and a move to more agile working, mental health has been on the decline as a result of increased work demands and feelings of loneliness due to remote working. Staff turnover is at an all-time high. Managing the wellbeing and associated risks is crucial to ensure a stable workforce.

Climate Change: Councils are taking action to reduce their own carbon emissions and working with partners and local communities to tackle the impact of climate change on their local area.

Inflation: The forecast rises in inflation after a long period of stability has had an impact upon term contracts as well as budget management.

Council specific Audit Risk Review

6. This risk review incorporates two elements. The first element is the service's relative materiality to the Council's overall objectives and controls. The assessment includes consideration of:



Finance Risk: The value of funds flowing through the service.



Priority Risk: The strategic importance of the service in delivering Council priorities.

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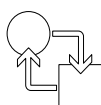


Support Service Risk: The extent interdependencies between Council departments.

7. The second element considers the reputational aspects of a failure of the effective operation of the internal control arrangements. The assessment includes consideration of:



Oversight Risk: Considering where other agencies regulate or inspect the service.



Change Risk: Considering the extent of change the service faces or has recently experienced.



Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.



Fraud Risk: The susceptibility of the service to fraud loss.

Audit Risk Prioritisation

8. The results of these various risk assessments provide a provisional Audit Plan. The provisional Plan is consulted on with the Managers, Heads of Service and Corporate Leadership Team to get their perspective on the audit assessment and from this the Risk Based Audit Plan for the financial year is produced.

Resourcing the Audit Plan

9. MKA is currently going through a period of significant staffing change. There are several vacant posts within the team The Head of Mid Kent Audit is currently reviewing the structure. It is likely to be July 2023 at the earliest before all the substantive posts are filled.
10. MKA also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts.

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11. The overall resource level is therefore based on the current audit team establishment and the chargeability for each grade. This calculation produces an available number of days across the four Councils to which MKA provides the internal audit service of 1,589 days.
12. Each Council receives a share in keeping with their contribution to the overall partnership budget. The Collaboration Agreement is to be subject to a comprehensive review during 2023/24. The Swale Audit Plan for 2023/24 is broadly based on the current Collaboration Agreement, but taking into account the level of work required to deliver an annual Audit Opinion for each authority. This approach has identified 371 days to assign for the 2023/24 audit plan.
13. We hold a variety of qualifications that help to ensure that we provide a high-quality service. These include CIPFA, Certified and Chartered Internal Auditors, a Chartered Accountant, a Certified Risk Manager and Accredited Counter Fraud Technicians. We are also supporting an apprentice through level 7 audit qualification. This breadth of skills and experience, along with any new staff we will recruit as part of the review of the team will enable delivery of the audit plan.
14. MKA has the skills and expertise to deliver the 2023/24 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2023/24 to be delivered in Spring 2024.
15. The actual number of days allocated are set out below:

Audit Projects	225 days	Members Support	12 days
Consultancy	25 days	Risk & Governance	51 days
Follow-up	16 days	Counter Fraud	18 days
Audit Planning	24 days		

Risk Based Audit: 225 Days

16. The primary part of Audit Plan is delivering risk based audit engagements. The list below is in alphabetical and do not imply any ranking within the group or intended delivery order. The timings for the individual reviews will be agreed with a suitable officer sponsor once the Plan has been approved.



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17. The Audit Plan has been prepared in the knowledge that there is ongoing work throughout 2023/24 on reviewing the staffing and procedural efficiencies and Collaboration Agreements for Mid Kent Audit Partnership. Any proposed changes to the Audit Plan and the rationale for such changes, will be communicated to Senior Management Teams and Audit Committee Members.
18. Below we set out our audit engagements for the year ahead. We will agree the detailed objectives with the service as part of planning each review:

Swale Borough Council Audit Plan 2023/24

Project Title	Previous Audit	Previous Results
Social Media	2015/16	Strong
Safety Partnerships	2017/18	Strong
Public Health		None
Elections Management	2016/17	Strong
Conservations & Heritage	2018/19	Sound
Animal Welfare	2017/18	Sound
Financial Planning - Bacs Project		None
General Ledger	2016/17	Strong
Grounds Maintenance	2017/18	Sound
Leisure Services	2021/22	Not delivered
Emergency Planning		None
Performance Management	2015/16	Sound
Housing Benefits	2016/17	Sound
Shared MBC/SBC		
HR Policy Compliance	2017/18	Sound
Learning & Development	2015/16	Sound
Shared MBC/SBC/TWBC		
Land Charges	2017/18	Weak
Cyber Security	2018/19	Sound
IT Disaster Recovery	2017/18	Sound
Compliance with Computer use policy	2014/15	sound

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Follow-up of Agreed Actions: 16 days

19. Time has been allocated to following up the actions arising from internal audit recommendations made and reporting the results to Senior Officers and Members.

Consultancy & Member Support: 37 days

20. A consultancy allocation provides general and specific extra advice or training to the Council. This allocation also provides support to Members, through attendance at and reporting to Committees.
21. This fund also provides a contingency to avoid having to cut short engagements and allow full exploration of significant findings.

Risk Management: 51 days

22. At Swale MKA's responsibility encompasses tasks such as leading the risk management framework, keeping and updating strategic and operational risk registers. The responsibility for managing the identified risks remains with the relevant risk owners. MKA also compiles risk reporting to Senior Officers and Members, including an annual report to this Committee.
23. The plans for developing risk management in 2023/24 are set out in the Annual Risk Management Report.

Planning: 24 days

24. This time is allocated to complete the major part of the annual planning exercise, including updating risk assessments and consultation across the Council. The time is also used for identification of risks and issues across the Council, the wider public sector and the audit profession. This ensures the Audit Plan can remain dynamic and responsive to risk through the year.

Counter Fraud Support: 18 days

25. At Swale MKA'S responsibilities include writing and updating Counter Fraud and Whistleblowing policies, providing a channel for officers to raise concerns under the Public Interest Disclosure Act. MKA also acts as lead contact for the National Fraud Initiative, a data matching exercise co-ordinated by the Cabinet Office.



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26. For 2023/24 it is intended to compile more detailed procedures for investigations, drawing on Cabinet Office Standards. We also aim to draw up training to support compliance with the Bribery Act and make clear where people should report any matters of concern.
26. The counter fraud support also includes conducting investigations on matters of concern. Additional time may be required for such work, and this will be drawn from the consultancy budget above.

Audit Committee Meeting	
Meeting Date	17 th April 2023
Report Title	Risk Management Annual Report
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Katherine Woodward – Head of Audit
Lead Officer	Alison Blake – Interim Deputy Head of Audit
Classification	Open
Recommendations	1. That the Audit Committee considers and, where necessary, provides comments on the operation of the risk management framework.

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to provide information to members of the Audit Committee on the Council's risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process.
- 1.2 The report attached in Appendix I provides an overview of how the risk management process has operated throughout the year. To demonstrate this process in action information relating to the Council's risk profile is included in the report.
- 1.3 We (Mid Kent Audit) have been working with the Council over the course of 2022/23 to update and maintain the comprehensive risk register. Including updating the corporate and operational risks and continued reporting and communication of key risk information. Throughout the year we have also continued to work with the Council to create a positive risk culture and ensure that the risk management process adds value

2 Background

- 2.1 The Council's risk management arrangements are detailed within its Risk Management Framework. This was reviewed and updated during the latter part of 2021/22 with the final version being approved by Audit Committee in July 2023.

3 Proposals

- 3.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.

3.2 We therefore propose that the Committee notes the arrangements in place and provides comments on the operation of the risk management process.

4 Alternative Options

4.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.

4.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.

5 Consultation Undertaken or Proposed

5.1 The risk management framework was designed through consultation with Senior Management Team and Audit Committee Members.

5.2 All risk owners have been involved in the identification and assessment of the risks on the register.

6 Implications

Issue	Implications
Corporate Plan	Effective risk management is part of the Council's governance framework. The purpose of the risk management process is to ensure that key risks are identified and appropriately managed as the Council pursues its Corporate objectives.
Financial, Resource and Property	Investment in developing risk management arrangements are being met from existing resources within the Mid Kent Audit partnership. No implications identified at this stage.
Legal, Statutory and Procurement	None identified at this stage
Crime and Disorder	None identified at this stage
Environment and Climate/Ecological Emergency	None identified at this stage
Health and Wellbeing	None identified at this stage

Safeguarding of Children, Young People and Vulnerable Adults	None identified at this stage
Risk Management and Health and Safety	This report is about risk management. No H&S implications identified at this stage.
Equality and Diversity	None identified at this stage
Privacy and Data Protection	None identified at this stage

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Annual Risk Management Report

8 Background Papers

- [Risk Management Framework](#)

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Risk Management Annual Report

April 2023



Executive Summary

A key principle of good governance is managing the ***effect of uncertainties on the achievement of our objectives*** (our risks). Having arrangements in place to identify and manage our risks increases the probability of achieving corporate and operational objectives by controlling risks in balance with resources. Good risk management also increases our ability to cope with developing and uncertain events and helps to instil a culture of continuous improvement and optimisation.

This report summarises the risk management work undertaken during 2022-23. It provides assurance to Members of the Audit Committee that the Council has effective risk management arrangements in place. These processes ensure risks are identified and managed across the Council, with a focus on the most significant risks to the Council.

Roles and Responsibilities

We (Mid Kent Audit) are responsible for facilitating and coordinating the risk management processes across the Council. Our role includes regular reporting to officers and Members, through the Strategic Management Team (SMT), Policy & Resources Committee (PRC) and the Audit Committee. We also provide workshops and training, and support the embedding of risk management throughout the Council.

Having valuable and up to date risk information enables oversight functions to happen effectively. The PRC has overall responsibility for the risks identified through the risk process and will review the substance of individual risks to ensure that issues are appropriately monitored and addressed.

As those charged with governance and oversight the Audit Committee are required to seek assurance that the Council is **operating** an effective risk management process. This report enables the Audit Committee to fulfil the responsibilities as set out in the Terms of Reference:

To provide independent assurance of the adequacy of the risk management framework and the associated control environment ...

To monitor the effective development and operation of risk management and corporate governance in the Council.

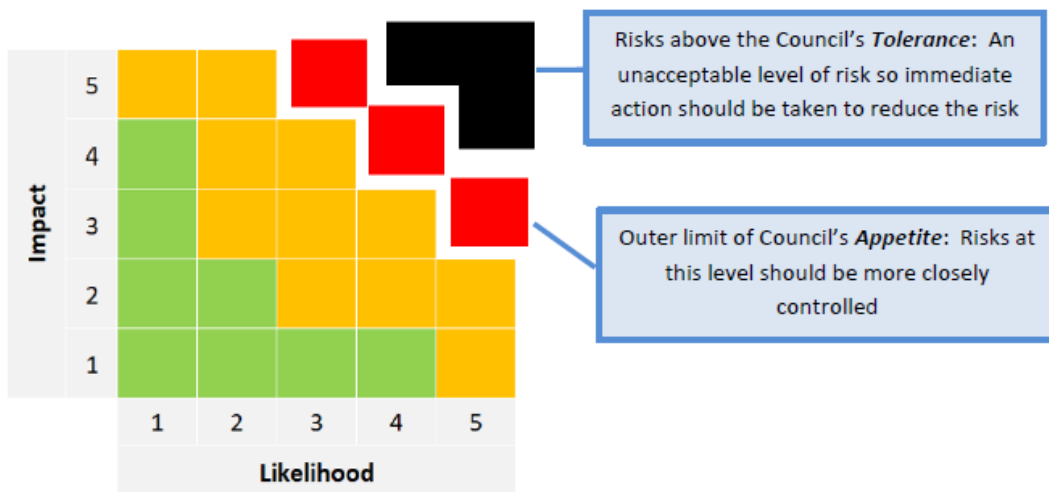
Risk Management Process

A risk is a **potential event that, if it materialises, effects the achievement of objectives**. Risk management is the process of identifying, measuring and responding to risks. These processes help to ensure that the Council achieves its corporate and service objectives by controlling risks in balance with resources. Good risk management also increases our ability to cope with developing and uncertain events and helps to instil a culture of continuous improvement and optimisation.

The Risk Management Framework sets out the Council’s approach to managing corporate and operational (service) risks. The risk management process is broken down into the following key components, which start with being clear about what the Council, or service are trying to achieve. Appendix 1a sets out how the Council evaluates its risks.



The Risk Management Framework also includes the Council’s risk appetite statement, which articulates how much risk the Council is comfortable with and able to bear. The Council recognises that to achieve its objectives it must take risks, but that some risks are unacceptable (above our tolerance) and so action should be taken immediately to manage these risks. Risk appetite and tolerance are illustrated in the following matrix:

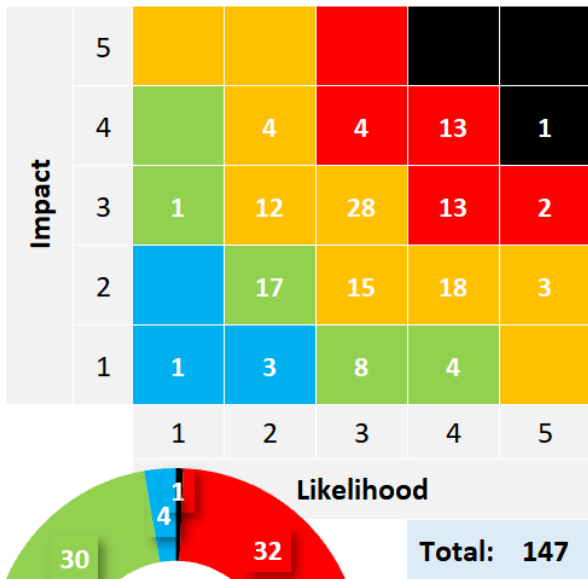


Risk Management in Action: 2022-23

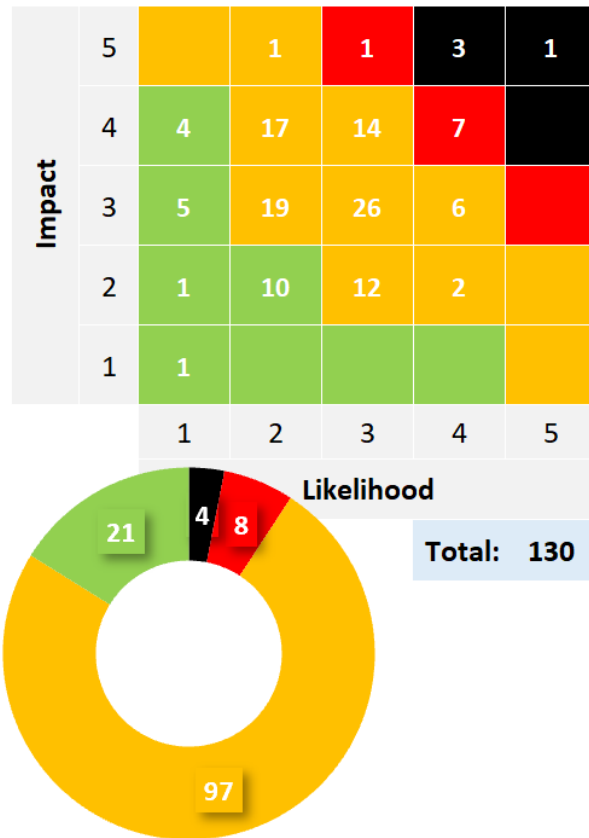
Throughout the year the risk management processes have operated in line with the Council’s Risk Management Framework (as described above). The following risk matrices show the current risk profile as reported to Audit Committee in March 2022 and as at March 2023. The current risk represents the likelihood and impact of the risk based on our understanding of the future uncertainty at this moment in time.

The diagrams summarise the changes to the profile with the overall number of risks decreasing from 147 to 130. It should be noted that in July 2022 Audit Committee agreed a new Risk Management Framework which changed the criteria for scoring risks and the Council’s risk appetite – hence the significant reduction in the total number of red risks. Further explanation of these changes is provided below.

Current Risk Profile (March 2022)



Current Risk Profile (March 2023)



During the year we completed the roll out of the Council’s risk management software – JCAD. The software is accessible to all risk owners and senior management allowing them to directly view and update their risks. JCAD provides a more efficient risk management process and more effective reporting of risk information than the previous spreadsheet-based process. Alongside training risk owners on the use of JCAD we reviewed and updated all operational risks to ensure the risks remain current and reflect the new Risk Management Framework. Risk owners are engaging well with the system and with understanding and updating their risks.

Training has been provided during the year for both officers and Members on the principles of risk management and the Council’s Risk Management processes.

The Council continues to monitor and update its corporate risks. The corporate risks are those risks which have an affect across Council services and may affect delivery of the Council’s strategic priorities. Throughout the year these risks have been routinely updated by risk owners and reported quarterly to SMT and 6-monthly to PRC. The following table shows the Council’s corporate risks and how the risk score has changed throughout the year.

Ref	Risk Title	Risk Owner	Current Risk Rating (I x L)				Overall Trend
			Mar-22	Sep-22	Nov-22	Mar-23	
A	Balancing Medium Term Budget	Director of Resources	15 (5 x 3)	15 (5 x 3)	25 (5 x 5)	25 (5 x 5)	↑
B	Increased Homelessness	Head of Housing & Community Services	16 (4 x 4)	20 (5 x 4)	20 (5 x 4)	20 (5 x 4)	↑
C	Funding Capital Spend	Director of Resources	9 (3 x 3)	9 (3 x 3)	20 (5 x 4)	20 (5 x 4)	↑
D	Demands & Community Pressure	Head of Housing & Community Services		20 (4 x 5)	20 (4 x 5)	16 (4 x 4)	↓
E	Social Inclusion	Head of Housing & Community Services	8 (2 x 4)	REMOVED			
F	Elections Failure or Challenge	Chief Executive			20 (5 x 4)	15 (5 x 3)	↓
G	Major Contractor Failure or Decline	Head of Environment & Leisure	12 (4 x 3)	6 (3 x 2)	16 (4 x 4)	12 (4 x 3)	↔
H	Design of Major Contracts	Head of Environment & Leisure	15 (5 x 3)	15 (5 x 3)	15 (5 x 3)	12 (4 x 3)	↓
I	Borough Wide Infrastructure	Head of Planning Services	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	↔
J	Affordable Housing	Head of Housing & Community Services	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	↔
K	Recruitment & Retention of staff	Head of Mid Kent HR & Director of Resources		12 (3 x 4)	12 (3 x 4)	12 (3 x 4)	↔
L	Housing Supply	Head of Planning Services	16 (4 x 4)	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	↓
M	Cyber Security Incident	Head of Mid Kent IT	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	↔
N	Swale House Refurbishment	Head of Regeneration & Economic Develop'nt	16 (4 x 4)	9 (3 x 3)	9 (3 x 3)	9 (3 x 3)	↓
O	Climate & Ecological Emergency	Head of Environment & Leisure	12 (4 x 3)	9 (3 x 3)	9 (3 x 3)	9 (3 x 3)	↓
P	Focus on Established Priorities	Chief Executive	9 (3 x 3)	9 (3 x 3)	9 (3 x 3)	6 (3 x 2)	↓
Q	Managerial Leadership	Chief Executive	6 (3 x 2)	REMOVED			
R	Adapting to New Governance Arrangements	Head of Policy, Governance and Customer Services	6 (2 x 3)	6 (2 x 3)	REMOVED		

Change in Risk Management Framework and risk scoring

Headlines

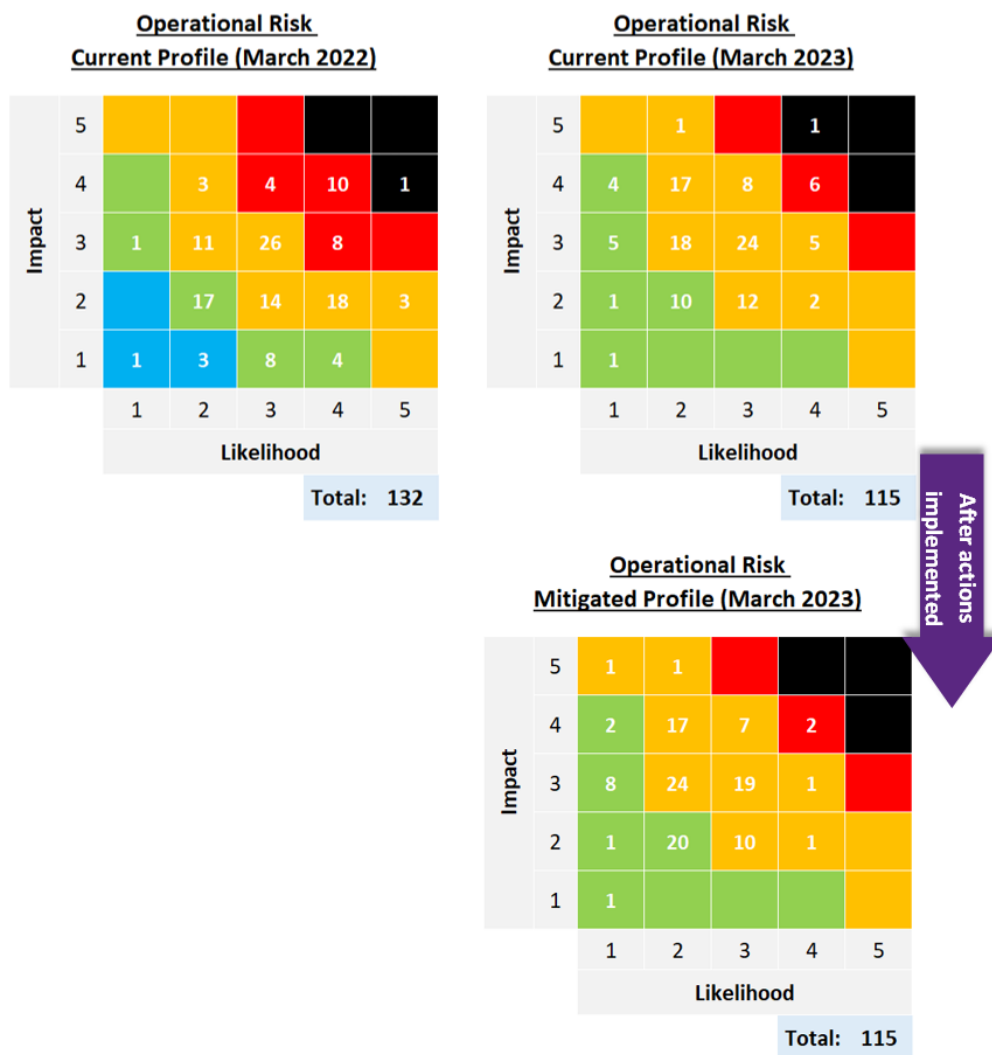
The Social Inclusion risk was removed and replaced with the Demands and Community Pressure risk. The new risk reflects the implications to the Council of the cost-of living crisis resulting from increased demand to support residents and business in the Borough and from potential loss of income.

The Recruitment and Retention risk was added as services across the Council struggle to retain staff and recruit to vacant posts.

The successful introduction of the Council’s new constitution, and ongoing updates as needed, means the risks associated with Adapting to New Governance Arrangements was successfully managed.

The risk of Elections Failure or Challenge was identified as a result of the Elections Act 2022 introducing voter ID.

Operational risk registers for all services were refreshed during the summer alongside the roll out of JCAD. All Council services, including shared services, have identified risks which may affect delivery of their service objectives or wider Council priorities. The following matrices show the current risk profile at March 2022 and March 2023 (i.e. the risks as understood on those dates) and the mitigated profile (i.e. the risk after planned actions are introduced).



As can be seen there is one black operational risk which is currently being managed and actions have been identified to reduce the risk. This risk is routinely monitored by the risk owner and SMT, and is as follows:

Risk	Current Score	Mitigated Score
Provision and cost of Temporary Accommodation	20	16

The Council has approximately 21 services, including shared services, meaning there’s an average of 5 risks identified for each service. Risk owners review and update operational risks in line with the Risk Management Framework: the highest (red/black) risks are reviewed at least quarterly and reported to SMT, amber risks are reviewed 6-monthly and green risks annually. This process is automated through JCAD. Reviewing risks in this way enables us to focus resources on managing the most significant risks to the Council, while ensuring we maintain awareness of risks that are increasing.

Risk Management in 2023-24

Due to resources within Mid Kent Audit the actual number of risk management days delivered in 2022-23 is lower than planned. Audit Committee agreed 52 days of risk management work and 45 days have been delivered. The focus of the work is as outlined in the previous section of this report, with originally planned work on refreshing corporate risks and developing project risk guidance not having progressed.

The following key areas of work have been identified for 2023-24:

- Maintain **routine risk processes**, ensuring risks are reviewed and key risk information is reported in line with the Framework.
- Provide **risk training** to both officers and Members, including as part of Member induction.
- Refresh the Council's **Corporate Risk Register** with Members and senior management to ensure risks to the Council's strategic priorities are adequately captured and risk appetite understood.
- Continue to refine and enhance **JCAD**, in particular building on its reporting capability.
- Establish a **risk group** to share risk information across the Council.
- Explore the use of JCAD to capture and monitor **business continuity risks**.

The overall number of days for this work would be 51 days and have been considered within the context of the wider Mid Kent Audit plans for 2023-24 and the resources available.

APPENDIX Ia Definitions for Impact and Likelihood

The overall risk score is comprised of impact and likelihood. So that we achieve a more consistent understanding when assessing risks, the following definitions are used to inform the assessment of risks.

RISK IMPACT

Level	Service	Reputation	Wellbeing	Legal/Compliance	Financial	Strategic Objectives
Catastrophic (5)	Ongoing failure to provide an adequate service in a key area	Perceived as a failing authority requiring intervention	Significant staff dissatisfaction, long term absence, or increased staff turnover including key personnel	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment. Possible responsibility for death.	Uncontrollable financial loss or overspend over £1.5m	Failure to deliver multiple key priorities
Major (4)	Key service areas disrupted 5+ days Other service areas ongoing failure	Significant adverse national publicity	Adverse staff dissatisfaction, or increased absence and turnover of staff	Litigation expected and uncertain if defensible. Breaches of law punishable by significant fines. Fails to prevent death, causes extensive permanent injuries or long-term sick	Financial loss or overspend greater than £1m	Failure to deliver key priority
Moderate (3)	Key service disruption 3-5 days Other service disruption 7+ days	Adverse national publicity of significant adverse local publicity	Declining staff satisfaction, or some loss of staff due to absence or turnover	Litigation expected but defensible. Breaches of law punishable by fines. Fails to prevent extensive permanent injuries or long-term sick.	Financial loss or overspend greater than £700k	Unsatisfactory delivery of priorities
Minor (2)	Key service disruption 2 days Other service disruption 2-7 days	Minor adverse local publicity	Short-term dissatisfaction, minor loss of staff due to absence or turnover	Complaint or litigation possible. Breaches of regulations or standards. Long term injuries or sickness.	Financial loss or overspend greater than £100k	Poor delivery of priorities
Minimal (1)	Any service disruption 1+ day	Unlikely to cause adverse publicity	Loss of staff morale but unlikely to result in absence or turnover of staff	Unlikely to cause complaint. Breaches of local procedures.	Financial loss or overspend under £100k	Minimal reduction in delivery of priorities

RISK LIKELIHOOD

Level	Probability	Description
Highly Probable (5)	80% +	Without action is likely to occur; frequent similar occurrences in local government / Council history or anticipated within the next 6 months.
Probable (4)	60% - 80%	Similar occurrences known often in local government / Council history or anticipated within the next 12 months.
Possible (3)	40% - 60%	Similar occurrences experienced in local government / Council history or anticipated within the next 18 months.
Unlikely (2)	20% - 40%	Not unheard-of occurrence in local government / Council history. Anticipated within the next 2 years.
Rare (1)	0% - 20%	Seldom occurs; no recent similar instances in local government / Council history.

Auditor's Annual Report on Swale Borough Council

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2021/22

April 2023



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	2021/22 Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified, but improvement recommendation made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements or improvement recommendation made	No significant weaknesses in arrangements identified, but improvement recommendation made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified. Last year's improvement recommendation is outstanding.	↔

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

Executive summary



Financial sustainability

The Council has appropriate arrangements in place for budget planning and a good track record of delivering against its annual budget. Revenue reserves have been used consistently in recent years to underpin the annual budget. Whilst not yet critical, the Director of Resources has sounded clearly, a warning alarm that the Council must heed – the medium term financial deficit must be mitigated sustainably. There is a short window of opportunity to act to avoid a potential scenario of fully depleted reserves within the next two to three years. Our findings are set out in further details on pages 7-12.

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Governance

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have made some improvement recommendations to strengthen the current arrangements. Our findings are set out in further details on pages 13-18.



Improving economy, efficiency and effectiveness

The Council has in place an appropriate framework to ensure effective delivery of services and its priorities. We found no evidence of significant weaknesses in the Council's arrangements. Our findings are set out in further details on pages 19-20.



We have completed our audit of your financial statements and issued an unqualified audit opinion on 30 November 2022, following the Audit Committee meeting on 15 November 2022. Our findings are set out in further detail on pages 22.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 30 November 2022, following the Audit Committee meeting on 15 November 2022. Our findings are set out in further detail on page 22.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue statutory recommendations.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a Public Interest Report

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the Court, under Section 28 of the Act.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 20. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The covid-19 pandemic continued to impact on the Council's finances and operational service delivery as the 2021/22 annual budget was prepared. In this period of continued uncertainty, another one-year settlement from Government made it difficult to undertake any long-term planning with any certainty.

Annual plans

The 2021/22 Budget was approved by members in February 2021. The Council's strategy was not to cut services to bridge an underlying deficit. Its plans assumed that in the unusual operating environment, additional government funding would be received. This proved to be the case with an additional £1.47 million funding provided. This was a one year only funding allocation. A budget deficit reported to Cabinet of £3.24 million in December 2020 was mitigated by a combination of the additional funding; an assumption that the Council could successfully resist growth pressures of £1.14 million and a contribution from reserves of £662k. The approved budget also assumed service savings of £447k.

The 2021/22 outturn position had revenue overspend on services of £176k however there was a net expenditure (contribution to General fund) of £104k which is better than the initial budget position. The reason for the improved performance was increased income from Coronavirus Support Grants.

The Finance team work with budget holders to report the forecast outturn position and this is reported to members quarterly. This reporting does not track the actual savings achieved for that year against those identified. Officers state that this is not necessary as the budget has been amended to take account of any savings proposed and so any variance from the budgeted position is reported in the monitoring reports. This is a common approach for councils. However, we do see increasingly, councils reporting explicitly, achievement against planned savings, particularly in situations where planned savings are a mixture of recurrent and non recurrent savings. We recommend that the Council consider this (recommendation 1).

In the December 2022 draft 2022/23 budget report, members were informed that there was a gap of £2.3 million planned to be met by reserves.

At the time of presenting the draft proposals, the local government settlement was not known. Members approved the 2022/23 budget and Medium-Term Financial Plan in February 2022. A combination of additional government funding and further refinement of budget proposals reduced the £2.3 million gap by £665k leaving a planned use of reserves of £1.65 million to balance the budget.

The budget papers presented to members are detailed and set out an analysis of growth proposals, unavoidable pressures, loss of income and increased income streams, price increases and savings across all services. The papers indicate the Council's main contracts and the associated contractual price inflation, but do not set out the assumption build into the budget for general inflation. This may be appropriate in times of low inflation but in volatile periods, making explicit the inflationary pressures is prudent along with some sensitivity assessments (recommendation 2).

Financial monitoring of the 2022/23 budget in quarter 1, as reported to Policy and Resources Committee, showed emerging pressures on the budget which if left unchecked, could result in an estimated forecast overspend of £0.9 million.

Medium term financial planning

A medium term financial plan is presented alongside the annual budget. This sets out the forecast financial picture for the following two years. Given the uncertainty of the financial regime, its Medium Term Financial Plan has been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as council tax, business rates and the government funding settlement.

The 2022/23 Medium Term Financial Plan showed an increasing cumulative savings requirement of £1.65 million 2022/23; £2.87 million 2023/24 and £3.32 million 2024/25. The 2023/24 MTFP recently agreed by Members in February 2023 updates the forecast up to 2024/25 of £2.64 million with an additional uncertainty of government grant funding of £1.65 million, giving a total forecast deficit as at 2024/25 of £4.28 million. The forecast deficit is estimated to increase to £4.7 million in 2026/27.

Revenue reserves are used to underpin the annual budget. The reserves available for use are the General Fund Reserve, which can be used for any purpose, and earmarked General Fund Reserves which are set aside for specific purposes or projects but can be used without restriction. Reserves are finite and therefore once used require replenishment to provide a buffer against future financial uncertainties.

The 2022/23 Medium Term Financial Plan reported total usable revenue reserves as at 1 April 2021 as £21.45 million with an expectation that £7.7 million would be consumed in the year leaving a balance of £13.73 million as at 31 March 2022. The actual total revenue reserves as per the financial statements as at 31 March 2022 were £26.8 million. This reconciles to the starting position of the 2023/24 MTFP.

The 2022/23 MTFP estimated reserve usage of £5.2 million in 2022/23, £1.2 million in 2023/24 and £0.27 million in 2024/25 leaving a total of £7.04 million as at 31 March 2025. The 2023/24 MTFP updated forecast shows forecast reserves as at 31 March 2025 as £2.45 million (including ringfenced and collection fund reserves).

S25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Director of Resources made such an assertion for the 2022/23 and 2023/24 financial plans. In 2022/23, the Director recorded “The medium term savings requirement will need to be addressed in future budget rounds as it is not sustainable to continue to rely on significant transfers from reserves to support the base budget position.”

In 2023/24, the Director recorded “...the medium term savings requirement will need to be addressed in future budget rounds as based on the information included in the MTFP, the reserves will not be sufficient to support the council’s financial position.”

Whilst not yet critical, the Director of Resources has sounded clearly, a warning alarm that the Council must heed. There is a short window of opportunity to act to avoid a potential scenario of fully depleted reserves within the next two to three years.

Last year we recommended that a savings plan based on the Medium Term Financial Plan budget projections to 2023/24 needed to be developed. Currently no medium term savings plan has been developed. The Council needs to prioritise urgently the identification and risk assessed deliverability of a medium term savings plan to protect the delivery of future services, maintain adequate reserves and ensure its financial sustainability (recommendation 3).

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities. Ensures its financial plans are consistent with other plans.

Last year we reported that we found a robust financial planning process which ties in with corporate objectives. We noted:

- both internal and external consultation on the annual budget;
- The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services;

- Clearly defined responsibilities for budget management;
- Corporate Management and member challenge of performance, holding budget holders to account;
- The Council has in place a Capital Strategy and Annual Treasury Strategy which align with corporate aims. Capital Strategy is supported by a Capital Programme.

These arrangements continued to operate appropriately in 2021/22. We also note as part of the 2023/24 budget setting papers, officers enhanced the medium term financial strategy demonstrating a consideration of amongst others the following: the Corporate global, national and local pressures; links to other strategies and risk assessment.

Improvement recommendations



Financial sustainability

Recommendation 1	The Council should report the achievement or not of savings built into the annual budget.
Why/impact	This will increase the transparency of deliver against plans for members.
Auditor judgement	The Finance team work with budget holders to report the forecast outturn position and this is reported to members quarterly. This reporting does not track the actual savings achieved for that year against those identified.
Summary findings	We noted the Council does not track the actual savings achieved against those identified during our review of the budget.
Management Comments	Management do not believe that creating an additional reporting schedule will increase the transparency around the delivery of savings. The budget has been amended to reflect the savings that have been made and so the regular budget monitoring reports will identify any variance to this position and will be reported accordingly. The creation of additional reporting is a waste of scarce resources and will not improve the reporting of actual savings against those identified as that is what our budget monitoring reports are already doing.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 2

Set out clearly in the budget papers, the key assumptions such as general inflationary increases and incorporate as appropriate sensitivity analysis for key assumptions demonstrating to members the impact should outcomes differ from key assumptions.

Why/impact

The budget papers presented to members are detailed and set out an analysis of growth proposals, unavoidable pressures, loss of income and increased income streams, price increases and savings across all services. The papers indicate the Council's main contracts and the associated contractual price inflation, but do not set out the assumption build into the budget for general inflation.

This may be appropriate in times of low inflation but in volatile periods, making explicit the inflationary pressures is prudent along with some sensitivity assessments

Auditor judgement

Failure to provide a longer term strategy for financial sustainability could lead to an unsustainable financial position developing.

Summary findings

We noted that budget papers presented to members do not set out the assumptions built into the budget for general inflation.

Management Comments

Inflation assumptions are included in the budget build spreadsheet reports and this will continue for future budget rounds. We will also include an explanation of the inflation assumptions in the covering reports for the next budget round.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 3

The Council needs to prioritise urgently the identification and risk assessed deliverability of a medium term savings plan to protect the delivery of future services, maintain adequate reserves and ensure its financial sustainability.

Why/impact

To identify how the Council can reduce its forecast funding gap without excessive reliance on reserves.

Auditor judgement

Failure to provide a longer term strategy for financial sustainability could lead to an unsustainable financial position.

Summary findings

Last year we recommended that a savings plan based on the MTFP budget projections to 2023/24 needed to be developed. Currently no medium term savings plan has been developed.

Management Comments

The council is aware of the need to produce a savings plan to accompany the budget for 2024/25 and this will form part of the reporting for the next budget round.



The range of recommendations that external auditors can make is explained in Appendix C

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Managing Risk

The Council has a Risk Management Framework in place. Since the Framework's introduction in 2015 it has been routinely reviewed and updated, with the last update taking place in 2019. During October and November 2021, Strategic Management team (SMT) was consulted on changes that could be made to the Council's risk management processes to enhance and update them and to reflect the new management team structure. This feedback and the operation of the process over the past few years was used to develop the revised Risk Management Framework, which SMT agreed in January 2022. Feedback on the key changes was sought from Audit Committee in March 2022, including changes to the impact and likelihood scales and changes to the Council's risk appetite statement.

All identified risks and associated information are captured in the Council's comprehensive risk register. This is used to monitor and report on risks to ensure action is being taken as necessary and changes are captured in updates to the risks. To address these issues risk management software called JCAD was purchased. The software is being built to reflect the Council's risk management processes so that it is tailored to the Council's approach. During January and February 2022, the Council's insurers Zurich have been performing a desk top review of the Framework and how risk information is reported.

The report is currently being finalised but the overall conclusion is of "a strong framework and an organisation actively managing risk."

Risk Management was reviewed by Internal Audit in 2021/22 and they concluded that the procedures in place 'provide sound assurance'.

Based on our review of your risk management processes, we concur with this view. The risk management framework is reviewed annually (most recently in March 2022) and there is separate guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, assessing, evaluating, escalating, allocating and monitoring risk.

Internal Control

Internal audit of the Council is the responsibility of the Mid Kent Audit a shared service between Ashford, Maidstone, Swale and Tunbridge Wells borough councils. Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by May 2022 concluded 'reasonable assurance' on the system of internal control.

Internal audit's work is risk based and considers the Council's key risks. The annual work plans for internal audit are approved and overseen by the Audit Committee.

ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

For 2021/22 the Council maintained the Cabinet system. In October 2021 the Council agreed to replace this system with a committee system which came into effect in May 2022. A cross-party constitution review working group has developed proposals with respect to the detailed working of the new system. The Council has managed the transition to the committee system well. From review of committee papers, we are satisfied that roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear.

The Council appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are fully set out in the Council's Constitution.

The Audit Committee is a key regulatory committee and it is tasked with oversight of the Council's systems of internal control through considering risk management and the work and findings of internal and external audit. CIPFA has recently updated its guidance on Audit Committees (published 2022). Supporting a recommendation by the Redmond Review, CIPFA recommends the Audit Committee includes two co-opted independent members for the following reasons:

- to supplement the knowledge and experience of elected members in specific areas such as financial reporting;
- to provide continuity outside the political cycle;
- to help achieve a non political focus on governance, risk and control matters.

The merits or not of this for Swale has not been debated (recommendation 4).

In October 2020 the Council agreed to establish a housing company, Swale Rainbow Homes Ltd. The company was incorporated in April 2021. Its purpose is to increase the supply of affordable housing. Activity in 2021/22 has not been material. As part of its developing governance arrangements, in June 2021, the Council established a Shareholder Panel comprising named councillors with the remit to monitor the company's compliance with its obligations and maintain oversight of the company including financial, performance and risk updates. This is an important function of the governance arrangements. In our review of lessons learnt from recent Public Interest Reports we commented on some of the failings of local authorities' oversight and control of their companies. This includes, the lack of clarity of roles, responsibilities and purpose; the prevalence of an optimism bias that does not reflect the true performance of the company; and a lack of skills around commercial decision making. A key recommendation arising from our reflections was for councils to regularly re-assess their governance arrangements to challenge whether they remain appropriate for the size and activities of the company. Swale BC should determine a review of its arrangements at an appropriate interval depending on the pace of increased activity of its company (recommendation 5).

The Council's website is an important forum in promoting accessibility and transparency. A lot of useful information is available on it. Accessibility means more than putting things online. It means making content and design clear and simple enough so that most people can use it. There is scope to improve the topology of the website, so that residents can access up to date information about the Council. In some instances this may mean removing content that is no longer relevant.

We have made an improvement recommendation in this respect (recommendation 6).

Managing Standards

The Council Constitution includes both a Member and an Officer Code of Conduct, which describes and regulates the way in which members and officers should interact to work effectively together.

We reviewed committee papers and we found that arrangements exist to ensure that members and employees are not influenced in their decision-making by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:

- 43 Registers of disclosable pecuniary and non-pecuniary interests;
- Declarations of disclosable pecuniary and non-pecuniary interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- Register of interests for officers;
- Registers of gifts and hospitality for members and officer, An Equalities Scheme and Equal Opportunities Policies; and
- Member induction and ongoing member training.

Quarterly Financial Management Reports are presented to Cabinet and these consider current activity and projected future outcome. It is clear that financial delivery is a key objective from the top down.

The Council operates a budget monitoring process at Head of Service level, with regular reports to the Leader and Cabinet Member for Finance and the Strategic Management Team. Financial monitoring reports are presented to Cabinet on a quarterly basis, as well as to Scrutiny Committee.

We found no evidence or indication of significant risks to your governance as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Governance

Recommendation 4

The Council should consider CIPFA's recommendation that the Audit Committee includes two co-opted independent members.

Why/impact

To comply with current best practice.

Auditor judgement

Two co-opted independent members is required as recommended by CIPFA as best practice.

Summary findings

The Audit Committee is a key regulatory committee and it is tasked with oversight of the Council's systems of internal control through considering risk management and the work and findings of internal and external audit. CIPFA has recently updated its guidance on Audit Committees (published 2022). Supporting a recommendation by the Redmond Review, CIPFA recommends the Audit Committee includes two co-opted independent members.

Management Comments

Management will include the proposal of independent members for the audit committee to the new council following the elections in May.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Governance

Recommendation 5

Swale BC should determine a review of its governance arrangements in respect of its oversight of the subsidiary company at an appropriate interval depending on the pace of increased activity of its company.

Why/impact

A key recommendation arising from our reflections was for councils to regularly re-assess their governance arrangements to challenge whether they remain appropriate for the size and activities of the company.

Auditor judgement

As part of its developing governance arrangements the Council established a Shareholder Panel comprising named councillors with the remit to monitor the company's compliance with its obligations and maintain oversight of the company including financial, performance and risk updates. This is an important function of the governance arrangements.

Summary findings

In our review of lessons learnt from recent Public Interest Reports we commented on some of the failings of local authorities' oversight and control of their companies. This includes, the lack of clarity of roles, responsibilities and purpose; the prevalence of an optimism bias that does not reflect the true performance of the company; and a lack of skills around commercial decision making

Management Comments

The council has a shareholder panel that is in place to provide oversight of the council's subsidiary company. The regularity of meetings of this group will be reviewed in line with the pace of activity of the company as planned.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Governance

Recommendation 6

Review the topology of the website and consider removing content that is no longer relevant.

Why/impact

This will enable the council's most up to date information easier to access by users.

Auditor judgement

Out of date contents will be confusing to users.

Summary findings

The Council's website is an important forum in promoting accessibility and transparency. A lot of useful information is available on its website. There are however, examples where the topology may be confusing and the content out of date.

Management Comments

The topology of our website content will be reviewed to enable our most up to date and useful information to be more readily available.



The range of recommendations that external auditors can make is explained in Appendix C

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Management

Performance Monitoring was done through quarterly monitoring reports to Scrutiny. The report contains a monthly and quarterly Key Performance Indicators (KPI) review.

The Council has a Data Quality Standard which is reviewed annually. The standard sets out the Council's data quality standards, roles and responsibilities for data quality and the Council's expectations in regard to system and processes.

Review of committee documents shows informal consultation had taken place with key partners and internal officers for instance in the development of the draft Health and Wellbeing Plan. A formal consultation period with partners and the public ran from mid-December until Mid-February.

Last year, we recommended that a more formal or structured approach to benchmarking the cost of services. The Director of Resources confirmed that no arrangements have been put in place yet.

Partnerships

The council is able to review and challenge its strategic priorities. For instance, when the council came up with the Commissioning and Procurement Policy in December 2021. A decision was made to combine commissioning and procurement in one single strategy after internal audit identified areas of improvement.

The work and decisions on partnership arrangements is fed back to Cabinet. Review of Cabinet committee papers has evidence that decisions and monitoring of partnership work goes through Cabinet.

We reviewed the Council's arrangements in working with Partnerships. We have also considered how the council manages contracts. In March 2021, Cabinet took the decision to extend the existing three-year contract for planned and reactive term maintenance by six months rather than the full two years permitted under the contract. This was on the basis that officers would present a more detailed options appraisal of the alternative options to a term maintenance contract.

In July 2021, Cabinet is requested to approve the proposal to enter into a contract with Lanes Group PLC for a 11-month Contract with the option to extend the contract for a further 3 months if required. It was expected that the works should be fully delivered within the 11-month timeframe, however the additional 3-month extension option is a contingency to allow for any currently unknown issues.

Procurement

The body has a Commissioning and Procurement Strategy updated in December 2021 and the strategy was revised to capture both the commissioning and procurement processes. Recent internal audits have been undertaken on procurement processes and contract management.

Both audits identified areas for improvement that have been included in the new Commissioning and Procurement Policy. Training on commissioning, procurement and contract management has been delivered to spending officers in March 2021 and will be delivered every two years .

It was established that the council adheres to the Public Contracts Regulations 2015 (and subsequent revisions) and the National Procurement Strategy 2018.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2021/22.

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for ensuring economy, efficiency and effectiveness in its use of resources.



Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	A savings plan based on the medium term financial plan budget projections to 2023/24 will need to be developed.	Improvement	December 2021	No medium term savings plan has been developed Members are due to consider the 2023/24 budget where savings options are being considered. A further improvement recommendation has been raised.	No	Yes
	Consideration should be given to the undertaken of benchmarking across services to produce a structured process to chart the results of benchmarking.	Improvement	December 2021	No structured process to chart results of benchmarking. A further improvement recommendation has been raised.	No	Yes

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 30 November 2022.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 15 November 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We have not yet completed the WGA return for 2021/22 as guidance has yet to be received from the NAO.

Preparation of the accounts

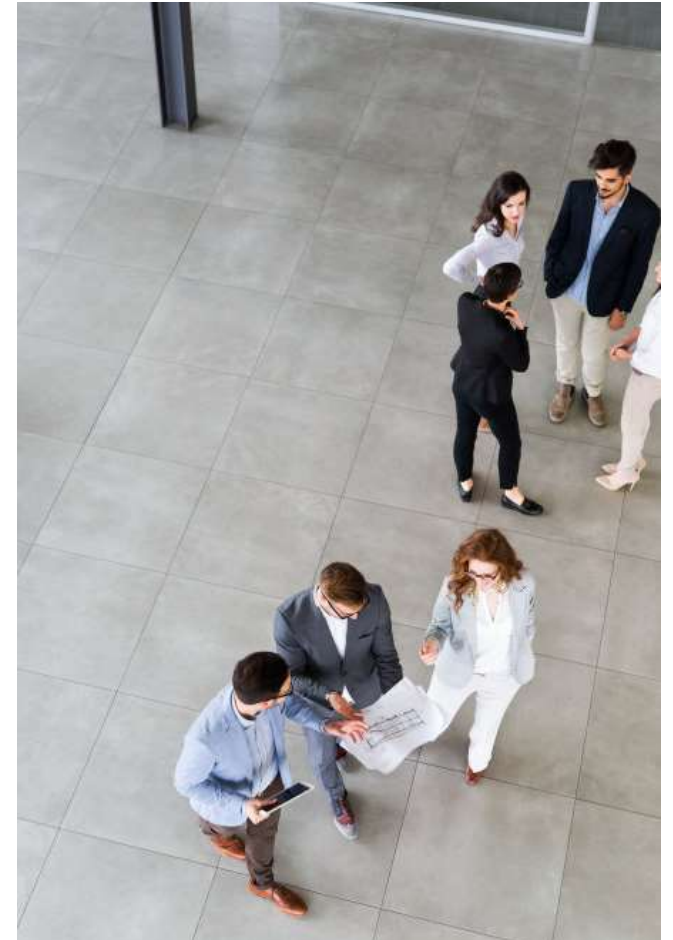
The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

No key issues were identified in the annual report and accounts.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

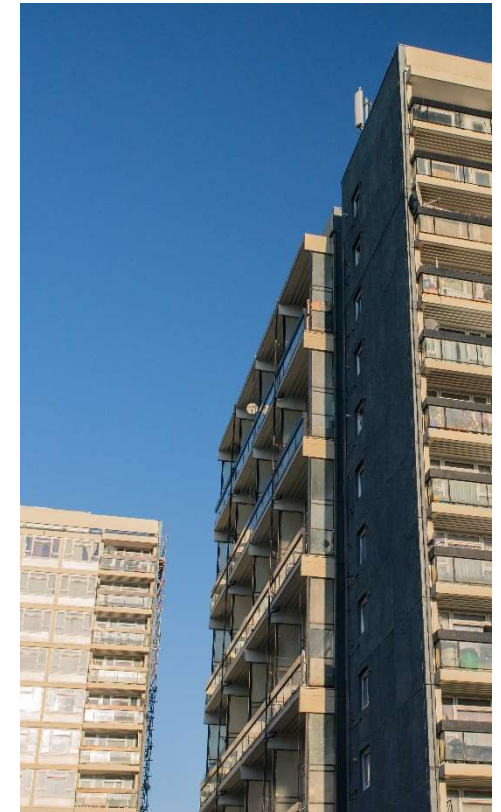
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We identified no such risks.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Financial sustainability pages 10- 12. Governance pages 16-18.



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Swale Borough Council audit plan

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April 2023

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Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

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

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

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Council Developments

As for many councils, the financial outlook is challenging and uncertain in the medium term. The funding gap was at £1.6m over the period 2022/23. By March 2023, a detailed budget review had taken place to identify efficiencies and additional income to help support frontline services and to balance the Council's financial position. Based on current forecasts this still leaves a deficit of £2.0m for 2023/24 which will need to be supported from reserves. Based on the projections and the spending estimates and use of reserves in the current year, the reserves are forecast to be fully depleted by 2025/26. The Council therefore needs to prioritise exploring ways to increase the deliverability of a savings plan in order to protect the delivery of future services and its reserves.

Waste management currently represents a significant pressure. A contract extension has been agreed due to the lead in times for the new waste vehicles which will take the current contract through to the end of March 2024. The estimated additional cost of this due to the impact of inflation and the extension itself is in the region of £1.8m.

The Council declared a climate and ecological Emergency in June 2019, and has committed to make Council operations carbon neutral by 2025 and across the borough by 2030. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to flesh these plans out with what investment and changes to operations may be required to make such targets a reality in the medium to long term. This is also increasingly becoming an area of concern for Audit/Risk Committees in terms of how they oversee this risk, and auditors nationally are considering the impact on financial reporting and Value for Money of these plans.

In March 2023, the Council invited the Local Government Association to carry out a peer review.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, are set out further in our indicative Audit Plan.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money (VFM) work.
- Our VFM work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

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

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



Introduction and headlines

Significant risks

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

- The risk that the valuation of Land and buildings and investment properties in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- Risk of fraud in revenue recognition (rebutted).

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

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Materiality

We have determined planning materiality to be £1.56m (PY £1.56m) for the Council, which equates to 1.95% of your prior year Cost of Service expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £78k (PY £78k). We will update this on receipt of the draft statement of accounts for audit. We design our procedures to detect errors in specific accounts at a lower level of precision, therefore we have determined lower materiality for cash and cash equivalents at £500k and Officers' Remuneration and Termination Benefits Disclosure at £50k respectively.

Value for Money (VFM) arrangements

At the time of writing, our risk assessment regarding your arrangements to secure VFM is ongoing. We have not identified any risks of significant weaknesses in your arrangements at this stage. We will report any changes to our risk assessment to the Committee.

Audit logistics

Our planning visit will take place in March 2023 and our final visit will take place in October – December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £72,620 (PY: £73,269) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>The 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 Council revenue streams, 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 that of Swale Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Swale Borough Council.</p>
Management over-ride of controls	<p>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. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	<p>You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations.</p> <p>For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • Test revaluations made during the year to see if they are input correctly into the Authority's asset register; • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • For all assets not formally revalued, evaluate the judgement made by management or others in determination of current value of these assets.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>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.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation. We will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> Update 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 evaluate the design of the associated controls. Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and Obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risk identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Error in expenditure recognition	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items. Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.
	<p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period, but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p>	
	<p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate expenditure recognition opportunities to manipulate expenditure recognition are limited the culture and ethical frameworks of local authorities, including Swale Borough Council, mean that all forms of fraud are seen as unacceptable. 	
	<p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.56m which equates to 1.95% of your gross expenditure for the prior period.</p>	<p>We determine planning materiality to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £50,000 – We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £500,000

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £78k (PY £78k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	1,560,000	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.56m which equates to 1.95% of your gross expenditure for the prior period.
Materiality for specific transactions, balances or disclosures - Senior Officer Remuneration	50,000	We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £50,000.
Materiality for specific transactions, balances or disclosures - Cash and Cash Equivalents	500,000	We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £500,000.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 19.

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

IT system	Audit area	Planned level IT audit assessment
Agresso	General Ledger	<ul style="list-style-type: none"> • ITGC assessment (design effectiveness only) for Council-hosted controls <ul style="list-style-type: none"> • Understanding IT general controls • IT environment • IT general controls segregation of duties analysis • Cyber Security workplan

We have not identified significant changes during the period affecting the IT controls of the Council and therefore no additional audit procedures will be completed.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

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

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Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor’s annual report.

Audit logistics and team

Planning and
risk assessment

Audit
committee
April 2023
Audit Plan

Year end audit
October - December

Audit
committee
TBC
Audit Findings
Report
Audit Opinion

Audit
committee
TBC
Auditor's
Annual
Report

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Darren Wells, Key Audit Partner

Darren is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee and senior officers. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Darren will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Darren will sign your audit opinion.



Richmond N Nyarko, Audit Manager

Richmond is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee, Director of Finance, Policy and Development and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Richmond will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Asad Khan, Audit Assistant Manager

Asad will lead the onsite team and will be the day-to-day contact for the audit. He will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Audited body responsibilities

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

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018, PSAA awarded a contract of audit for Swale Borough Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

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

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Resources].

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Swale Borough Council Audit	71,269	73,269	£72,620

Assumptions

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

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

Relevant professional standards

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

Audit fees – detailed analysis

	Actual Fee 2021/22	Proposed fee 2022/23
Scale fee published by PSAA	£46,769	£54,270
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£7,500	£0
Audit fee 2019/20	£54,269	£54,270
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£9,000	£9,000
Increased audit requirements of revised ISAs	£6,500	£6,350
<i>Proposed increase to agreed 2019/20 fee</i>	£15,500	£15,350
<i>New issues for 2021/22</i>		
Cost reflecting remote working outside SBC	£5,000	£0
IFRS 16 Disclosure work	(1,500)	0
<i>New issues for 2022/23</i>		
Introduction of ISA 315	£0	£3,000
Total audit fees (excluding VAT)	£73,269	£72,620

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

The other services provided by Grant Thornton are set out in the table below.

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit (Subsidy) Assurance Process	27,600	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,600 in comparison to the total fee for the audit of £72,620 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		<p>ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.</p> <p>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.</p> <p>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.</p> <p>Respective responsibilities</p> <p>As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	

