

# Annual Audit Letter

*Year ending 31 March 2018*

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Swale Borough Council  
August 2018



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

## Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,711,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2017/18 claim is in progress and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our 2017/18 certification report.
Certificate	We certify that we have completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code of Audit Practice.

## Working with the Council

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

Grant Thornton UK LLP

August 2018

## Respective responsibilities

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

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

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

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,711,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We concluded that for local authorities the disclosure on senior officer remuneration is potentially an area where there is added political sensitivity, and for this area we set a lower materiality level of £25,000.

We set a lower threshold of £86,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, the Annual Governance Statement, and the Narrative Report published alongside the Statement of Accounts to check that they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property plant and equipment</b></p> <p>The Council regularly revalues its land and buildings assets. The valuation of Property Plant and Equipment (PPE) assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that PPE revaluation measurements were materially misstated.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, including review of the instructions issued to the Council's external valuer;</li> <li>considered the competence, expertise and objectivity of the external valuer;</li> <li>reviewed the external valuer's approach and assumptions; and</li> <li>tested that revaluations were correctly entered into the Council's accounting records.</li> </ul>	<p>In the course of our work officers identified that a building on one of the Council's leisure sites had been incorrectly omitted from the initial valuation. A calculation error was also identified in the workings of the external valuer. As a result of these errors the valuation of PPE assets was understated by £363,000. We concluded that the issue was not material for our opinion. The accounts were not amended.</p> <p>We performed additional work to review the valuations for similar assets included in the Council's accounts. We did not identify any issues material to our opinion.</p> <p>We recommended that in future years the Council maintains up to date measurements of building and land areas for its large leisure assets and uses this information to support the valuation process.</p> <p>We did not identify any other issues in relation to this risk.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme. This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated;</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation;</li> <li>performed work to confirm the reasonableness of the assumptions made by the actuary;</li> <li>checked that the information on pensions included in the financial statements was consistent with the actuary's report; and</li> <li>obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council.</li> </ul>	<p>We did not identify any issues in relation to this risk.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2018.

We noted that the value of property plant and equipment assets in the financial statements had been understated by £363,000 but concluded that the issue was not material for our opinion. We did not identify any other errors which required an adjustment to the Council's primary financial statements.

The Council successfully published its 2017/18 draft accounts ahead of the new accelerated deadline of 31 May 2018. The accounts were again prepared to a high standard and supported by very strong working paper trails.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the Council's financial statements.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code of Audit Practice.

We issued our certificate on 31 July 2018.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Council continues to face significant financial pressures associated with reductions in government funding.</p> <p>A strong financial planning framework is key to the Council maintaining a sustainable financial position and delivering its key objectives.</p> <p>We reviewed the Council's medium term financial plan and the supporting information trails.</p>	<p>The Council has a history of sound financial management. In recent years it has achieved regular annual underspends against revenue budget, including an underspend of £829,000 for 2017/18. The Council's most recent financial forecast indicates that it is again anticipating an underspend against budget in 2018/19.</p> <p>The Council continues to have a robust financial planning framework. It has taken action in previous years both to achieve financial savings and develop new income streams, and this is reflected in its medium term financial planning framework, which shows an improving financial position over future years in part due to increasing rental income from the Spirit of Sittingbourne regeneration project. The MTFP is updated annually and closely aligned with the budget-setting process. A review of supporting trails shows that it is based on a comprehensive consideration of the relevant income and expenditure streams.</p> <p>In the short term the Council continues to face significant financial pressures, with the need to manage both reductions in central government funding and increasing cost pressures in a number of service areas, including homelessness. It has made a limited contribution of £316,000 from reserves to support the 2018/19 budget.</p> <p>Historically the Council has benefited from significant growth in business rates income, and it is also likely to benefit substantially from membership of the Kent business rates pilot. It recognises that uncertainty over the future framework for business rates funding is an issue for financial planning. However, it has established a reserve to help manage any volatility in the levels of future income from business rates.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>



# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	Nil
- None	
<b>Non-Audit related services</b>	Nil
- None	

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	60,739	60,739	60,739
Housing Benefit Grant Certification	23,626	TBC	18,611
<b>Total fees</b>	<b>84,365</b>	<b>TBC</b>	<b>79,350</b>

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

