



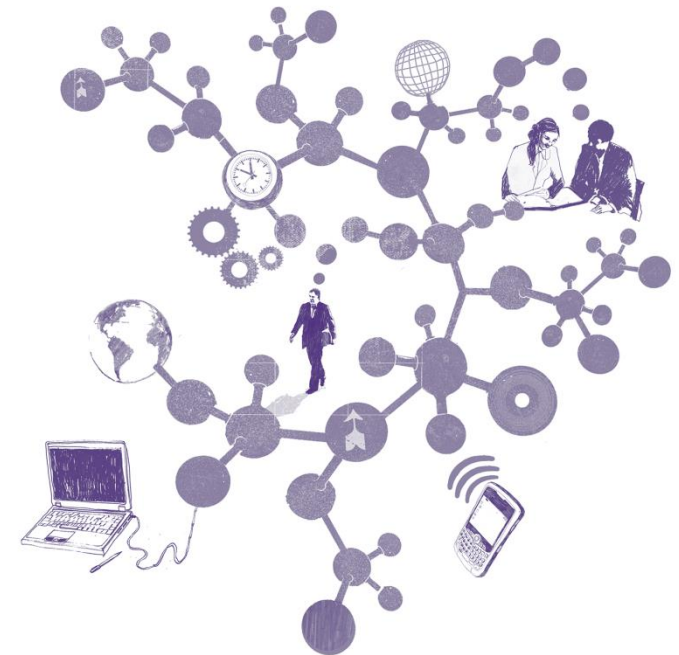
The Annual Audit Letter for Swale Borough Council

Year ended 31 March 2016

October 2016

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Executive summary

Purpose of this letter

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 14 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 26 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 26 September 2016.

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 2015/16 claim is in progress and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our 2015/16 Certification Report.

Working with the Council/Authority

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts 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 change or influence the economic decisions of a reasonably knowledgeable person.

We determined materiality for our audit of the Council's accounts to be £1,718,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

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

The scope of our audit

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

This includes assessing whether:

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

We also consider if the other information contained in the Council's Annual Financial Report and the content of the Annual Governance Statement is consistent with our understanding of the Council and with the accounts on

which we give our opinion.

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

Our audit approach is risk based. Our assessment of risk was based on a thorough understanding of the Council's business. Overleaf we set out the key risks we identified, the work we performed in response to those risks and the results of our work.

Audit of the accounts

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

| Risks identified in our audit plan | How we responded to the risk |
|---|---|
| <p>Employee remuneration understated</p> <p>For all Councils employee remuneration is a significant element of total expenditure. We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.</p> | <p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested payroll information for a sample of employees to supporting documentation • reviewed yearend reconciliations to ensure the information in the accounts was complete <p>We did not identify any issues to report.</p> |
| <p>Operating expenses understated</p> <p>For all Councils operating expenditure is a significant element of total expenditure. We designed our work to address the risk that in the Council's accounts creditors had been understated or had not been recorded in the correct period.</p> | <p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested creditor amounts to supporting documentation • tested 2016/17 payments to ensure that these had been posted to the correct accounting year <p>We did not identify any issues to report.</p> |
| <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts. The value of the pension fund net liability is estimated by specialist actuaries.</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p> | <p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • reviewed the competence, expertise and objectivity of the actuary performing the pension fund valuation • reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made • reviewed the consistency of disclosures in the financial statements with the actuarial report <p>We did not identify any issues to report.</p> |

Audit of the accounts

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

| Risks identified in our audit plan | How we responded to the risk |
|--|--|
| <p>Valuation of property, plant and equipment</p> <p>For all Councils Property Plant And Equipment (PPE) is an item with a significant value on the balance sheet. We designed our work to address the risk that PPE revaluation measurements were not correct.</p> | <p>As part of our audit work we;</p> <ul style="list-style-type: none">• gained an understanding of system controls and performed a "walkthrough" of the key controls to assess if these were designed effectively• reviewed management's processes and assumptions for estimating asset values, including review of the work performed by external valuers• reviewed the competence, expertise and objectivity of the external valuers• performed testing to ensure information on revaluations was correctly input to the Council's asset register <p>We did not identify any issues to report.</p> |

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 14 September 2016.

The Council's draft accounts were approved for issue ahead of the national deadline of 30 June 2016. Both the accounts and the supporting working papers were prepared to a very high standard. We did not identify any adjustments requiring amendment to the primary financial statements. A small number of amendments were agreed to disclosure notes.

The Council continues to improve the presentation of its financial statements under the "decluttering" agenda. It has also made progress in preparing for the acceleration in the national accounts timetable from 2017/18, with a review of closedown processes and evidence that the 2015/16 accounts were substantially complete by the end of May.

Other financial statement responsibilities

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

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

We also review the Council's Annual Governance Statement. We concluded that this had been prepared in accordance with the relevant guidance and that the

information it contained was consistent with our knowledge and with the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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 was to perform a risk assessment and identify the key risks where we focused our work.

The key risks we identified and the work we performed are set out in the table overleaf. Following our work we concluded that the risks identified were sufficiently mitigated and that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

| Risk identified | Work carried out | Findings and conclusions |
|---|--|--|
| <p>Financial planning The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.</p> | <p>We updated our understanding of the Council's medium term financial planning framework and it's planned approach to addressing future reductions in central government funding.</p> | <p>The Council has a three year Medium Term Financial Plan (MTFP) which is regularly updated and aligned with the annual budget-setting process. For 2016/17 the Council identified the annual savings required by the MTFP, building these into base budgets.</p> <p>The Council has a history of sound financial management. It achieved a gross revenue underspend on services of £1,958,000 in 2015/16, and currently is again forecasting an underspend against revenue budgets in 2016/17. This pattern of underspends against budget, which is consistent with previous years, indicates that the overall assumptions within the MTFP remain prudent.</p> <p>The Council continues to face financial pressures associated with reductions in government funding. In February 2016 the MTFP identified a funding gap of £966,000 in 2017/18, with a further gap of £2,711,000 in 2018/19. The Council has now produced a 10 year MTFP with updated assumptions for council tax and business rate income. This updated plan indicates that there is a reduced overall funding gap over the longer term, but requires the Council to achieve further service efficiency savings.</p> <p>The Council is taking a pro-active approach to address these pressures, with action to deliver efficiencies and increase the focus on income generation as part of a wide-ranging transformation agenda. Initiatives under this strategy include the creation of an internal Transformation Unit, work to redesign services provided through the Mid Kent Improvement Partnership, and proposals for a joint venture with a private sector partner to help maximise income from the sale or development of the Council's assets. Given uncertainty over the level of future funding from New Homes Bonus (NHB), the Council has also substantially reduced the extent to which NHB is used to support base budgets in 2016/17.</p> <p>The Council continues to have a strong focus on supporting wider change and regeneration within the Borough. Delivering its strategic objectives whilst also addressing future financial pressures will continue to require a robust medium term financial planning framework.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> |

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

| | Planned £ | Actual fees £ | 2014/15 fees £ |
|--|---------------|------------------|-------------------|
| Statutory audit of the Council | 60,739 | 60,739 | 80,985 |
| Housing Benefit Grant Certification (indicative)* | 20,710 | TBC | 24,790 |
| Total fees (excluding VAT) | 81,449 | TBC | 105,775 |

Fees for other services

| Service | Fees £ |
|--|--------|
| Audit related services | None |
| Non-audit services • Investors in People assessment | 8,510 |

*Our work on the Council's 2015/16 housing benefit claim is in progress.

Reports issued

| Report | Date issued |
|-----------------------|------------------------|
| Audit Plan | June 2016 |
| Audit Findings Report | September 2016 |
| Annual Audit Letter | October 2016 |
| Certification Report | January 2017 (planned) |



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