

Audit Committee
Swale Borough Council
Progress Report and Update
Year ended 31 March 2017

November 2016

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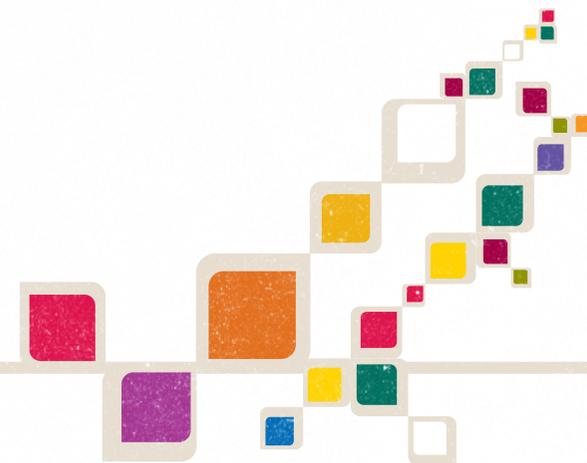
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

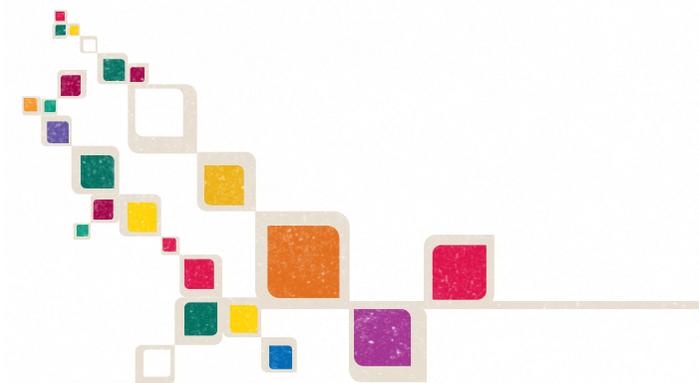
The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at www.grant-thornton.co.uk/en/Services/Public-Sector/ and where you can also download copies of our publications.

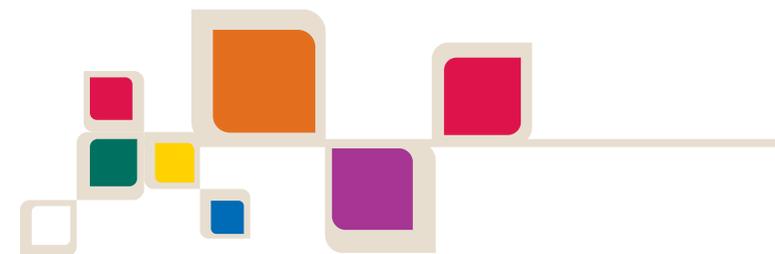
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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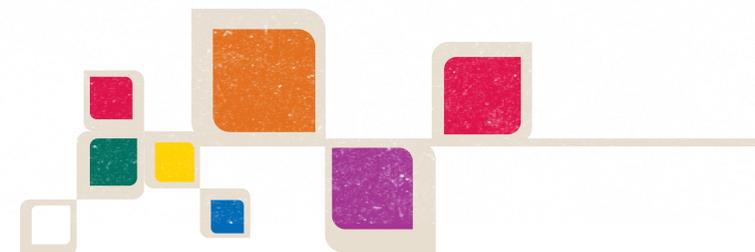


Planned work



2016/17 work	Planned Date	Comments
<p>Interim accounts audit</p> <p>Our interim audit work will include:</p> <ul style="list-style-type: none"> • work to understand the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing in areas such as payroll and payments. 	<p>December 2016 – March 2017</p>	
<p>Accounts Audit Plan</p> <p>Under auditing standards we issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	<p>March 2017</p>	
<p>Final accounts audit</p> <p>Work to complete our audit of the 2016-17 financial statements.</p> <p>We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.</p>	<p>July 2017</p>	

Progress at March 2016



2016/17 work	Planned Date	Comments
<p>Value for Money (VfM) conclusion</p> <p>We are required by section 21 of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VFM) conclusion.</p> <p>In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: <i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"</i>.</p> <p>AGN03 provides examples of proper arrangements using three sub-criteria;</p> <ul style="list-style-type: none"> • informed decision making • sustainable resource deployment • working with partners and other third parties. <p>These sub-criteria are intended to guide auditors in reaching their overall conclusion, but they not separate criteria for assessment purposes and auditors are not required to reach judgements on each of them.</p>	<p>February - July</p>	<p>We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.</p>

Grant Thornton Publications



Better Together: Building a successful joint venture company

Grant Thornton reports

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

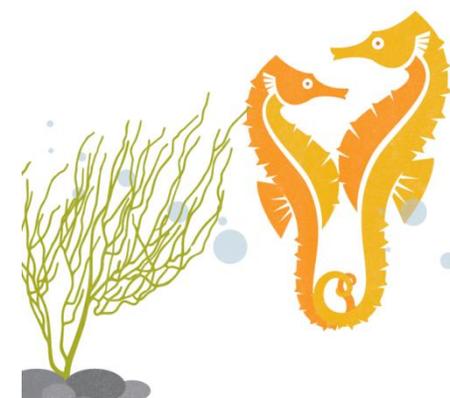
- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015 regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18 authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

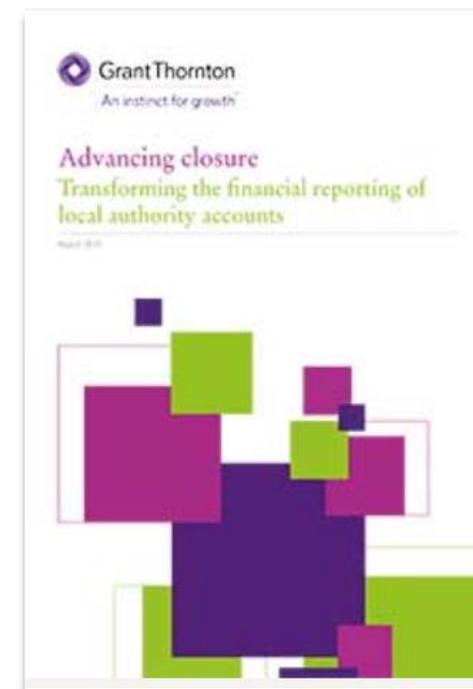
Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts. Our report explores these in further detail, concludes with a check list of suggested actions and provides insights from case study authorities who tell their stories of how they have achieved success.

Grant Thornton reports



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Understanding Local Government Brexit Impacts



Grant Thornton reports

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

The UK has voted to leave the European Union, with significant structural and financial implications for local government and the wider public sector. Until the Government opts to trigger Article 50 (the official notification of the intention to withdraw and the point at which the clock starts on the two year negotiating period) nothing changes in a formal sense, in that the UK still retains the full rights and obligations of a member of the EU. However, the referendum result has created significant socio-economic uncertainty which will present challenges to local government in the delivery of services and other economic development priorities.

Our message in the briefing note "Understanding Local Government Brexit Impacts" is that:

- as yet, nothing has changed
- there is time to plan
- it is important to start planning now.

Local government and individual authorities will be required to play a significant role in designing and then implementing the post-Brexit public service landscape, where the frameworks for public services will require a large degree of re-invention in terms of funding, procurement and delivery. Assembling relevant data, modelling potential impacts and providing clear evidence to central government and other stakeholders will be needed to support these frameworks.

Our briefing note, which is available on our website, sets out:

- the potential outcome scenarios over a range of timelines
- an outline diagnostic for assessing the potential impacts at an organisational and then place level.

Local Government Accounting and other issues



Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15 (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure, where capital spending fell by 22 per cent overall.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern. However, the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC (International Integrated Reporting Council) speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets.

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

Integrated Reporting

Further information is available on the IIRC's website

Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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