

Agenda

Audit Committee Meeting

Date: Thursday, 4 April 2024

Time 7.00 pm

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

Membership:

Councillors Andy Booth, Derek Carnell (Vice-Chair), Simon Clark (Chair), Angela Harrison, Mike Henderson, Rich Lehmann, Tara Noe, Richard Palmer and Dolley Wooster.

Quorum = 3

Pages

Information about this meeting

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2. Apologies for Absence

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The Chair will ask Members if they have any disclosable pecuniary interests (DPIs) or disclosable non-pecuniary interests (DNPIS) to declare in respect of items on the agenda. Members with a DPI in an item must leave the room for that item and may not participate in the debate or vote.

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.

4. Minutes

To approve the [Minutes](#) of the meeting held on 24 January 2024 (Minute Nos. 566 – 573) and the [Minutes](#) of the Extraordinary meeting held on 19 February 2024 (Minute Nos. 647 – 649) as correct records.

- | | | |
|----|---|---------|
| 5. | Internal Audit and Assurance Plan 2024/25 | 5 - 16 |
| 6. | Annual Risk Management Report | 17 - 28 |
| 7. | External Audit Plan | 29 - 58 |

Issued on Monday, 25 March 2024

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 democraticservices@swale.gov.uk. To find out more about the work of this meeting, 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	4 April 2024
Report Title	Internal Audit and Assurance Plan 2024/25
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 2024/25. 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 2024/25 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 2024/25, 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 2024/25

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 2024/25

Swale Borough Council



MID KENT AUDIT

Introduction

1. This risk-based internal Audit Plan for 2024/25 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 2024/25 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.
Some of the external factors that we consider when planning the internal audit coverage are (in no particular order):

- **Multi-channel customer engagement**
- **Commercialisation**
- **Cyber Security and Digital disruption**
- **Financial Viability**
- **Human Capital**
- **Climate Change, Biodiversity and environmental sustainability**
- **Macroeconomics - Inflation and Interest Rates**
- **Geopolitical uncertainty**

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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.
 - **Support Service Risk:** The extent interdependencies between Council departments.
 - **Complexity:** The complexity of the systems / activities in terms of their operation and auditability

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.
 - **Staff Turnover:** The turnover of staff, especially with key skill
 - **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 Management Board to get their perspective on the audit assessment and from this the Risk Based Audit Plan for the year is produced.

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Resourcing the Audit Plan

9. MKA has been through a period of significant staffing change. There are still several vacant posts within the team following an unsuccessful recruitment campaign. A further recruitment campaign will commence shortly, and we will continue to work with contractors to bridge the short-term resource gap.
10. MKA also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts.
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 1,471 days.
12. In 2024/25 each council will contribute to the partnership based on the actual service delivered to each authority as described in the collaboration agreement. The Audit Plan for 2024/25 is based on the level of work required to deliver an annual Audit Opinion for each Authority. This approach has identified 346 days to assign for Swale Borough Council for the 2024/25 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, Accounting technicians and Accredited Counter Fraud Specialist. 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 2024/25 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2024/25 to be delivered in Spring 2025.
15. The actual number of days allocated are set out below:

Audit Projects	200 days	Members Support	12 days
Consultancy	25 days	Counter Fraud	18 days
Follow-up	16 days	Risk Management	51 days
Audit Planning	24 days		

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Risk Based Audit: 200 Days

16. The primary part of the Audit Plan is delivering risk-based audit engagements to support delivery of the annual Audit Opinion. The annual Audit Opinion is required to provide a view on the effectiveness of internal controls, risk managements procedures and governance processes across the authority. To achieve this the audit plan needs to cover specific assurance themes to demonstrate a balanced view of the organisation while supporting the strategic direction of the Council. The five assurance themes considered are:
 - **Financial**
 - **Governance**
 - **Infrastructure**
 - **Operational**
 - **People**
17. The audits are categorised below based on the assurance themes that they relate to.
18. We have selected these audits from our '5 year rolling plan', which contains the audits we intend to deliver over the next five years. This rolling plan is a 'live' document that is constantly evolving based on organisational priority, service capacity and resource and timing constraints.
19. The timings for the individual reviews will be agreed with a suitable officer sponsor once the plan has been approved.
20. 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:

MID KENT AUDIT

Swale Borough Council Audit Plan 2024/25

Financial

- General Ledger
- Treasury Management
- Procurement
- Property Income
- Parking Income

Governance

- Performance Management
- Legal Services
- Emergency Planning

Infrastructure

- ICT – Technical Support
- ICT – Network Controls and Security

Operational

- Elections Management Disabled Facilities Grants
- Pre-Application Planning
- Economic Development
- Revs and Bents – Debt Recovery Service
- Revs and Bens - Fraud and Compliance
- Leisure Services Contract

People Policies

- Human Resources – Payroll and Expenses

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Follow-up of Agreed Actions: 16 days

21. 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

22. 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.
23. This fund also provides a contingency to avoid having to cut short engagements and allow full exploration of significant findings.

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, conducting investigations on matters of concern and providing a channel for officers to raise concerns under the Public Interest Disclosure Act.
26. For 2024/25 it is intended to compile more detailed procedures for investigations, drawing on Industry Standards. We also aim to draw up training to support compliance and awareness with the Counter Fraud policies and make clear when and where people should report any matters of concern.

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Audit Committee Meeting	
Meeting Date	4 April 2024
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 2024



Executive Summary

1. 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.
2. This report summarises the risk management work undertaken during 2023-24. 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

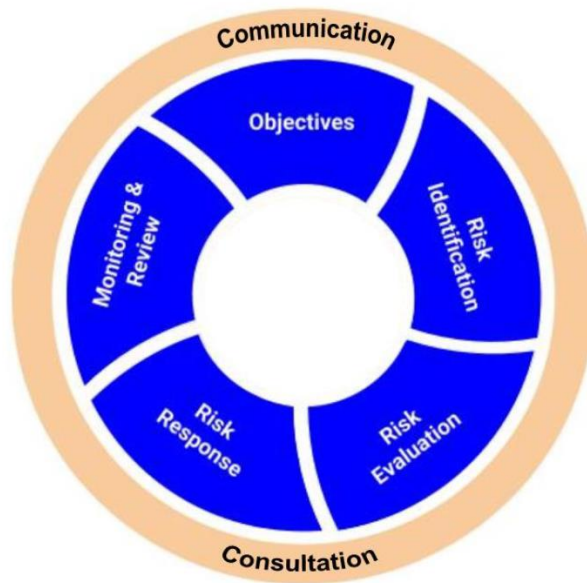
3. Mid Kent Audit are responsible for facilitating and coordinating the risk management processes across the Council. Our role includes regular reporting to officers and Members, through the Strategic Management Team (SMT), Policy & Resources Committee (PRC) and the Audit Committee. We also provide workshops and training and support the embedding of risk management throughout the Council.
4. 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.
5. 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 ...

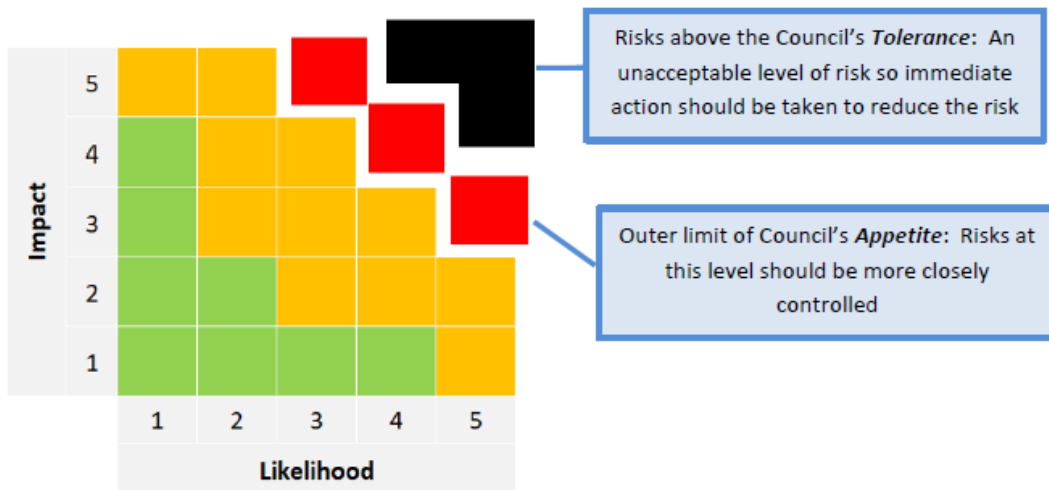
To monitor the effective development and operation of risk management and corporate governance in the Council.

Risk Management Process

- 6. 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.
- 7. 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 Ia sets out how the Council evaluates its risks.

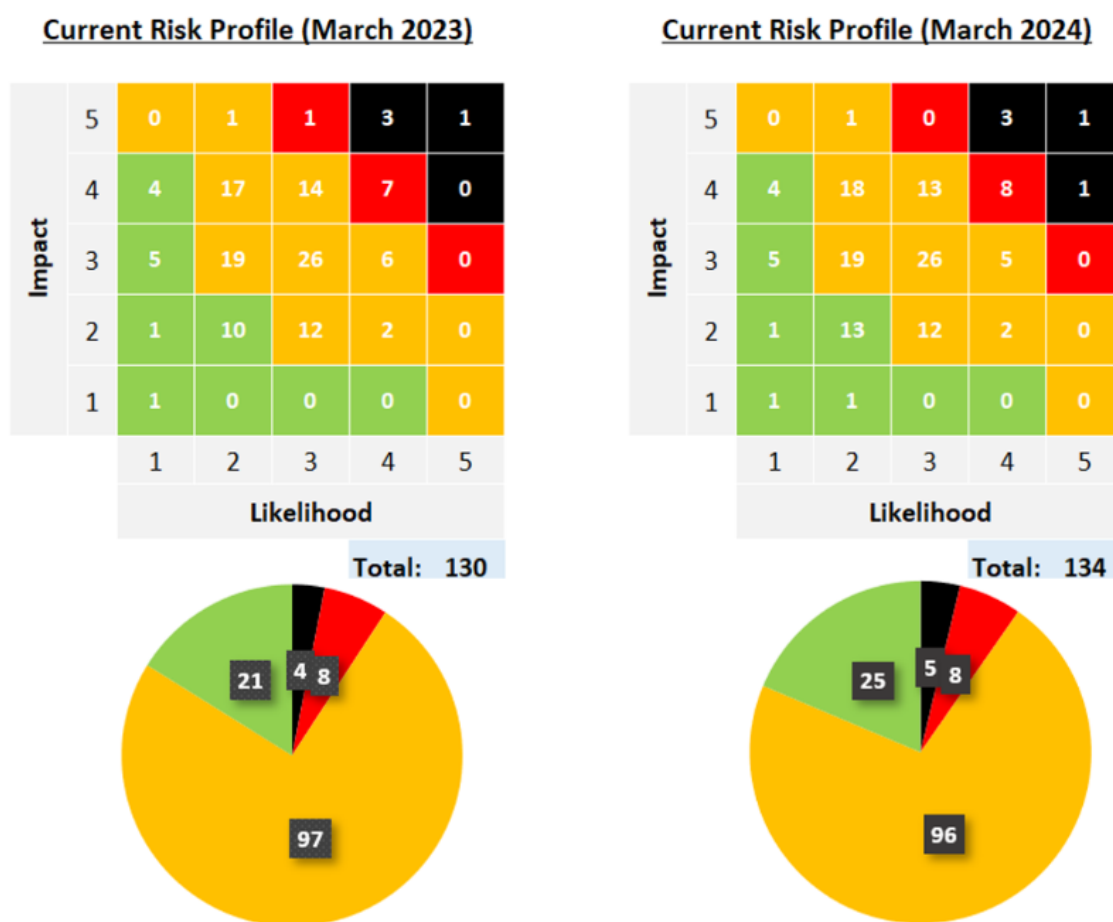


- 8. The Risk Management Framework also includes the Council’s risk appetite statement, which articulates how much risk the Council is comfortable with and able to bear. The Council recognises that to achieve its objectives it must take risks, but that some risks are unacceptable (above our tolerance) 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: 2023-24

9. 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 2023 and as at March 2024. The current risk represents the likelihood and impact of the risk based on our understanding of the future uncertainty at this moment in time.
10. The diagrams summarise the changes to the profile with the overall number of risks increasing from 130 to 134. 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. Further explanation of these changes is provided below.



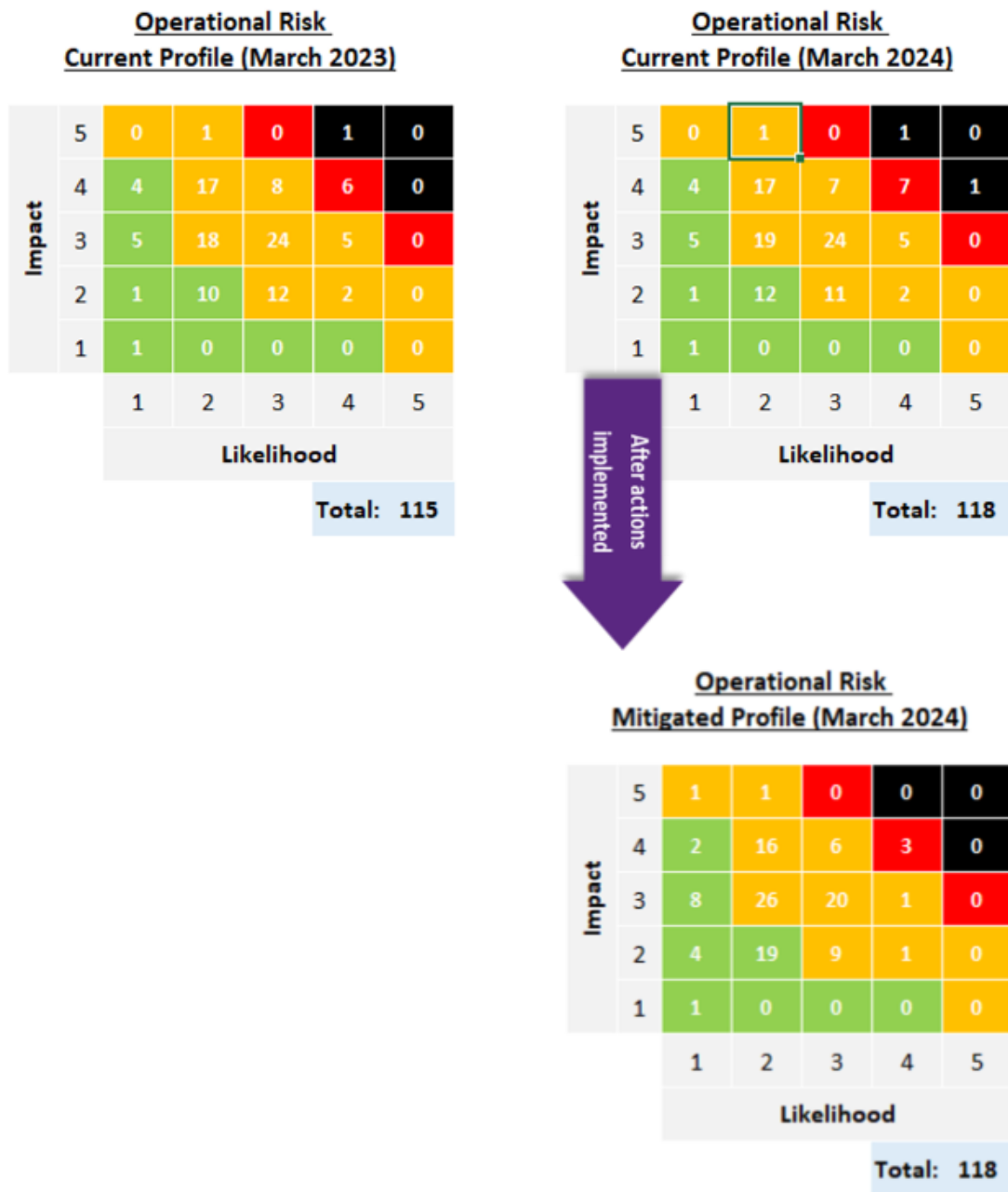
11. The roll out of the Council’s risk management software – JCAD, was undertaken during the previous year. The software is accessible to all risk owners and senior management allowing them to directly view and update their risks. JCAD provides a more efficient risk management process and more effective 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.
12. Further training will be offered for both officers and Members on the principles of risk management and the Council’s Risk Management processes in the following year.

13. 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. The following table shows the Council’s corporate risks and how the risk score has changed over the last three years.

Ref	Risk Title	Risk Owner	Current Risk Rating			Overall Trend
			Mar-22	Mar-23	Mar-24	
A	Balancing Medium Term Budget	Director of Resources	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)	↔
C	Funding Capital Spend	Director of Resources	9 (3 x 3)	20 (5 x 4)	20 (5 x 4)	↔
D	Demands & Community Pressure	Head of Housing & Community Services		16 (4 x 4)	16 (4 x 4)	↔
E	Social Inclusion	Head of Housing & Community Services	8 (2 x 4)	REMOVED		
F	Elections Failure or Challenge	Chief Executive		15 (5 x 3)	12 (4 x 3)	↓
G	Major Contractor Failure or Decline	Head of Environment & Leisure	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)	↔
H	Design of Major Contracts	Head of Environment & Leisure	15 (5 x 3)	12 (4 x 3)	9 (3 x 3)	↓
I	Borough Wide Infrastructure	Head of Planning Services	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)	↔
K	Recruitment & Retention of staff	Head of Mid Kent HR & Director of Resources		12 (3 x 4)	6 (2 x 3)	↓
L	Housing Supply	Head of Planning Services	16 (4 x 4)	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)	↔
N	Swale House Refurbishment	Head of Regeneration & Economic Develop'nt	16 (4 x 4)	9 (3 x 3)	2 (1 x 2)	↓
O	Climate & Ecological Emergency	Head of Environment & Leisure	12 (4 x 3)	9 (3 x 3)	9 (3 x 3)	↔
P	Focus on Established Priorities	Chief Executive	9 (3 x 3)	6 (3 x 2)	8 (4 x 2)	↑

Change in Risk Management Framework and risk scoring

14. 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 2023 and March 2024 (i.e. the risks as understood on those dates) and the mitigated profile (i.e. the risk after planned actions are introduced).



15. As can be seen there are two 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
Balancing the Budget over the medium term	25	12
Provision and cost of Temporary Accommodation	20	16

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 will be 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 2024-25

17. Due to resources within Mid Kent Audit the actual number of risk management days delivered in 2023-24 is lower than planned. 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.

18. The following key areas of work have been identified for 2024-25:

- 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**.

19. 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 2024-25 and the resources available.

APPENDIX 2 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.

External Audit Plan

Swale Borough Council
Year ending 31 March 2024

4 April 2024

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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

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing 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.

Local context

Page 35
Despite the financial challenges faced by the sector, the Council has managed to set a balanced budget for 2023-24. Initially, the Council had a working revenue budget of **£23.897 million**. However, the Q3 revenue and capital budget monitoring forecast results indicate that there is a projected revenue underspend on services, which will reduce the amount of reserves used to balance the finances. The amount to be taken from reserves has reduced by **£606,000**. In terms of capital expenditure, the original budgeted spend for 2023-24 was **£26.661 million**, with a working budget of **£33.184 million**. However, actual capital expenditure from April 2023 to December 2023 was only **£2.604 million**. Management has stated that some large capital projects are expected in Q4, and some of the budgets are effectively a rolling budget that may be deferred to future years.

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

Audit Reporting Delays

There have been significant delays in completing audit work and issuing audit opinions across the local government sector nationwide. Two consultations were released in February 2024 in response to this issue. One consultation by DLUHC sought views on introducing backstop dates for the publication of audited accounts in the Accounts and Audit Regulations 2015. The other consultation by the NAO sought views on changes to the Code of Audit Practice to support auditors in meeting backstop dates and promoting more timely reporting of their work on value for money arrangements. The Council's management team were invited to respond to these proposals, and our firm submitted comments on the proposal March 5, 2024. The outcome of the consultation is currently unknown.

Notwithstanding, to ensure timely sign-off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

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, as set out in this Audit Plan has been agreed with the Director of Resources.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Resources quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- As part of our audit, we will review any previously agreed actions that were made in relation to matters identified during previous audits, whether in relation to the financial statements or arrangements to secure value for money.
- 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 interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue- refer to page 8

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

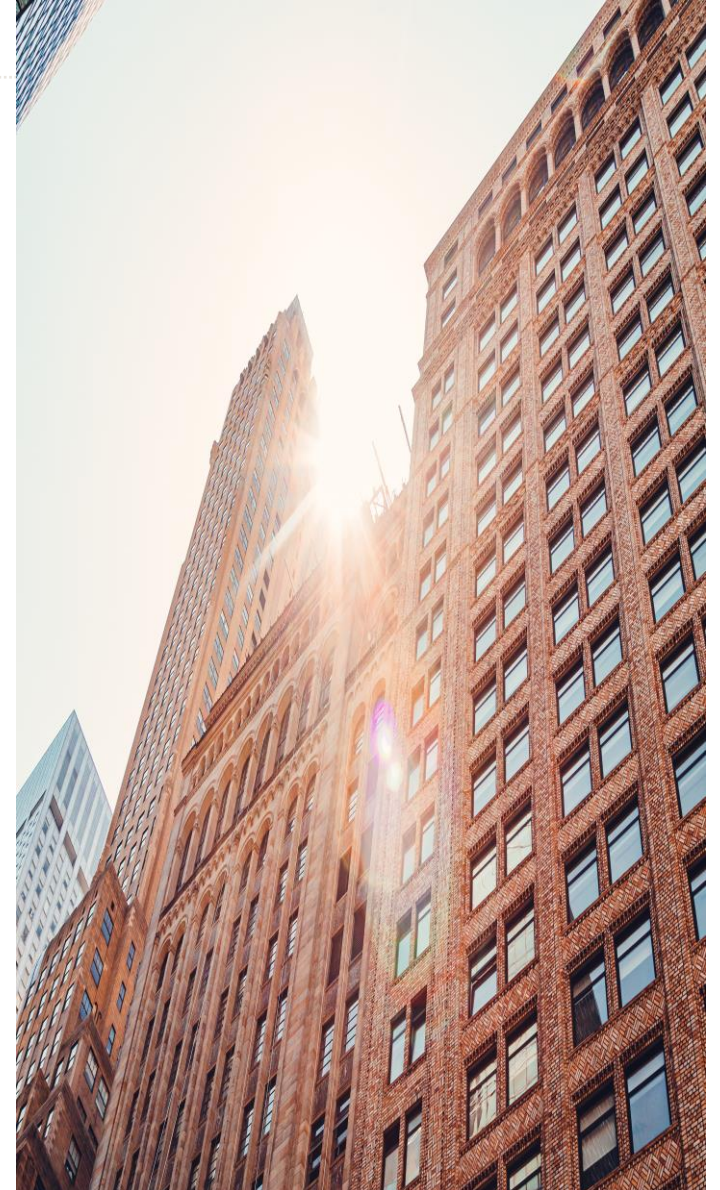
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This audit plan sets out the implications of the revised code on this audit. Our respective responsibilities are also set out in the agreed in the 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 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 we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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:

- Risk of fraud in revenue recognition (rebutted).
 - Risk of fraud in expenditure recognition (rebutted).
- The risk of management override of controls.
- 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.

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.

Materiality

We have determined planning materiality to be **£1.52 million** (PY **£1.52 million**) for the Council, which equates to 1.95% of your prior year gross expenditure for the year. 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 **£76,000** (PY **£76,000**).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is currently ongoing. To date, we have not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit will take place in March 2024 and dates for our final accounts visit are being agreed with management. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £176,378 (PY: £72,620) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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
<p>Presumed risk of fraud in revenue recognition ISA (UK) 240</p>	<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>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This 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 ISA 240, and the nature of the revenue streams of the Council, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue 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; and • the culture and ethical frameworks of public sector bodies, including 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 Council at the time of our planning however we will keep this assessment under review.</p>
<p>Risk of fraud related to expenditure recognition [PAF Practice Note 10]</p>	<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)</p>	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure streams of Swale Borough Council, and on the same basis as that set out above for revenue, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review.</p>

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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.</p> <p>The Council faces external scrutiny of their 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, and 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; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	<p>You revalue your operational land and buildings on a rolling five yearly basis. 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 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 - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	<p>The Council revalue its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation 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.</p> <p>The key assumption for investment property is the yield rates utilised by the valuer and our testing will therefore focus on this area.</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 the 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 valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, review the Council's valuers' reports and the assumptions that underpin the valuations; • focus our testing on the yield rates used by the valuer; and • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.

Significant risks identified - continued

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.</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 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.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

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.

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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 financial statements, consider and decide upon any objections received in relation to the 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.

Progress against prior year audit recommendations

We identified the following issues in our 2022/23 audit of the Council's financial statements, which resulted in one recommendation being reported in our 2022/23 Audit Findings Report. We will follow up on the implementation of our recommendations as part of our year-end fieldwork testing.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Incomplete Accruals of Income</p> <p>The council has a de-minimis level of £10,000 however during our Income/Debtors completeness testing, we identified several subsequent invoices raised above the de-minimis level in 2023-24 that relate to 2022-23. Management has not accrued for these balances resulting in an understatement of Income for 2022-23.</p> <p>Management should ensure that sufficient processes are in place to accrue for significant items of income that have yet to be received at year end to ensure the completeness of the income balance in the Accounts.</p>	<p>Management stated as part of the 2022/23 audit that:</p> <p>“We will review the processes for income accruals to ensure that the income accounted for [is] in the correct reporting period for the 2023/24 Statement of Accounts”.</p> <p>Auditors comments:</p> <p>We'll follow up on this recommendation as part of our post statements work. Therefore, this does not pose an issue at the current stage.</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.

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 £1.52 million, which equates to 1.95% of your prior year gross expenditure for the period.</p>	<p>We determine planning materiality in order 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>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>

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 data-bbox="259 536 987 603">Other communications relating to materiality we will report to the Audit Committee</p> <p data-bbox="259 624 1010 1155">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 data-bbox="1055 536 2096 603">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 data-bbox="1055 624 2096 847">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 £76,000 (PY £76,000). 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	£1,520,000	<p>The following factors were considered when determining materiality for the Council</p> <ul style="list-style-type: none"> • The financial information available at the time of drafting this report • Our understanding of the internal controls in place. • Our review of prior year's auditors' reports
Performance Materiality for the Council's financial statements	£1,140,000	<p>The following factors were considered when determining performance materiality for the Council</p> <ul style="list-style-type: none"> • The strength and effectiveness of the council's internal controls over financial reporting. • Errors identified in prior year's auditors' reports
Triviality for the Council's financial statements	£76,000	<p>The following factors were considered when determining triviality for the Council</p> <ul style="list-style-type: none"> • The size and significance of the error in relation to the overall financial statements • The frequency of the error • The nature of the error and its impact on the financial statements



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.

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	Financial reporting	Detailed ITGC assessment (design effectiveness only) for Council-hosted controls: <ul style="list-style-type: none"> • Understanding IT general controls • Understanding of the IT environment • IT general controls segregation of duties analysis • Cyber Security workplan

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Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

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:



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



Matt Dean, Key Audit Partner

Matt will be the main point of contact for the Chief Executive, Section 151 Officer and Members. Matt will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit Committee. Matt will ensure our audit is tailored specifically to you and is delivered efficiently. Matt will review all reports and the team's work.



Ibukun (Ibby) Oluwasegun, Audit Manager

Ibby will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Ibby will attend Audit Committee, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all.



Makanatsa Makusha, Audit Incharge

Makanatsa will lead the onsite team and will be the day to day contact for the audit. Makanatsa will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Makanatsa will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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 deadline you have agreed with us, including all notes, the Annual 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 cleansed, are made 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 (as per our responses to key matters set out on slide 4)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Swale Borough Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £168,848. In addition to this, £7,530 will be charged for ISA 315 as this was omitted by PSAA from the 2023-24 Scale Fees and hence standard uplifts have been agreed by PSAA for each type of client to cover these costs. The total

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Swale Borough Council Audit	£168,848
ISA 315 (This was omitted by PSAA from the 2023-24 Scale Fees and hence standard uplifts have been agreed by PSAA for each type of client to cover these costs)	£7,530
Total audit fees (excluding VAT)	£176,378

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Previous year

In 2022/23 the scale fee set by PSAA was **£54,270**. The actual fee charged for the audit was **£72,620**.

Relevant professional standards

In preparing our fees, 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 (Key Audit Partner) 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.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures, we will make enquiries to management on. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx \[publishing.service.gov.uk\]](#)

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.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

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			
Certification of Housing Benefits Subsidy	TBC	<ul style="list-style-type: none"> - Self-Interest (because this is a recurring fee) - Self review -Management 	<p>The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of and relative to Grant Thornton UK LLP's turnover overall is not significant. Further, it is a fixed fee and there is no contingent element to it.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We are satisfied that there is sufficient safeguards in place to mitigate the threats.</p>

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	•	
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	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

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.

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.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
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		•

Respective responsibilities

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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - [Consultations on measures to address local audit delays \[frc.org.uk\]](https://www.frc.org.uk/consultations)
- DLUHC landing page - [Addressing the local audit backlog in England: Consultation - GOV.UK \[www.gov.uk\]](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- NAO landing page - [Code of Audit Practice Consultation - National Audit Office \[NAO\]](https://www.nao.org.uk/consultations/code-of-audit-practice)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – ‘true and fair’)
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government’s response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

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