

## AGENDA

### AUDIT COMMITTEE MEETING

Date: Monday, 26 July 2021

Time: 7.00 pm

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

Membership:

Councillors Derek Carnell, Simon Clark (Chairman), Steve Davey, Simon Fowle, James Hall (Vice-Chairman), Ann Hampshire, Denise Knights, Peter Macdonald and Eddie Thomas.

Quorum = 3

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Pages

#### Information for the Public

\*Members of the press and public may follow the proceedings of this meeting live via a weblink which will be published on the Swale Borough Council website on Friday 23 July 2021.

Link to meeting: to be added.

#### Privacy Statement

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1. Apologies for Absence and Confirmation of Substitutes
2. Minutes

To approve the [Minutes](#) of the Meeting held on 10 March 2021 (Minute

Nos. 521 - 527) as a correct record.

### 3. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary Interests (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

**Advice to Members:** If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

### Part B reports for decision by the Committee

4.	Annual Internal Audit Report & Opinion 2020/21	3 - 28
5.	Audit Committee Annual Report 2020/21	29 - 38
6.	External Audit Plan	39 - 62
7.	Informing the Risk Assessment	63 - 90

### Issued on Thursday, 15 July 2021

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

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

<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	26 July 2021
<b>Report Title</b>	Annual Internal Audit Report & Opinion 2020/21
<b>Cabinet Member</b>	Cllr Roger Truelove, Leader of Swale Borough Council
<b>SMT Lead</b>	Nick Vickers – Chief Finance Officer
<b>Head of Service</b>	Rich Clarke – Head of Audit Partnership
<b>Lead Officer</b>	Rich Clarke – Head of Audit Partnership
<b>Key Decision</b>	No
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. The Committee <b>notes</b> the Head of Audit Partnership’s opinion.</li> <li>2. The Committee <b>notes</b> the work underlying the opinion and the Head of Audit Partnership’s assurance of its independent completion in conformance with proper Standards.</li> </ol>

## 1 Purpose of Report and Executive Summary

- 1.1 This report fulfils the Head of Internal Audit annual reporting directed by the Public Sector Internal Audit Standards (the “Standards”). The report includes the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This opinion feeds into the Annual Governance Statement for 2020/21.
- 1.2 The Standards, in particular Standard 2450 (Overall Opinions), direct the annual report to include:
  - The annual audit opinion
  - A summary of work completed the supports the opinion, and
  - A statement on conformance with Standards.

## 2 Background

- 2.1 Internal audit is a compulsory service for authorities as set out by Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit as described in that Regulation is:

*“[to] undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance”.*

- 2.2 As those charged with overseeing governance, the Terms of Reference for this Audit Committee direct that it must:

*“...consider the [internal audit] annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council’s corporate governance arrangements.”*

- 2.3 The overall scope of the Council’s audit service – which remains delivered as part of a four-way partnership with Maidstone, Tunbridge Wells and Ashford – is set out in the Audit Charter and Annual Plan. This Committee approved the 2020/21 plan in March 2020 and an updated plan reflecting post-covid adjustments in September 2020. This Committee also received an interim progress update in November 2020.
- 2.4 We have completed the work set out in the plan in full conformance with the Standards. We have also worked independently, free from undue influence of either officers or Members.

### **3 Proposals**

- 3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2020/21. Further, he is satisfied the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, he is satisfied the Council’s risk management processes are effective. We ask the Committee to note these opinions.
- 3.2 Please see Appendix I for the full Annual Report for 2020/21. This report includes a summary of all work conducted to support the opinion and affirms the independence and effectiveness of the internal audit service.

### **4 Alternative Options**

- 4.1 We present the opinion and associated report for noting rather than decision.

### **5 Consultation Undertaken or Proposed**

- 5.1 We consult and agree with relevant Heads of Service before finishing all findings and recommendations arising from individual audit engagements. The headline messages in our report are as discussed with the Chief Finance Officer across the year and have been shared to help prepare the Annual Governance Statement.

## 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	We completed the work programme within agreed resources.
Legal, Statutory and Procurement	The Council is required by Regulations to deliver a conforming internal audit service.
Crime and Disorder	No direct implications.
Environment and Climate/Ecological Emergency	No direct implications, although the Committee may wish to note that owing to the circumstances this is the first time we have completed an audit plan fully remotely.
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 the data protection policy of our host authority (Maidstone BC).

## 7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Internal Audit Annual Report 2020/21

## 8 Background Papers

Full reports which support the audit engagements summarised in this annual report are available.

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**MID KENT AUDIT**

# **Annual Internal Audit Report and Opinion 2020/21**

**July 2021  
Swale Borough Council**



# MID KENT AUDIT

## Introduction

1. The IIA gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our annual reporting:

### 2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

#### Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

### Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## Independence of internal audit

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
4. Within Swale BC during 2020/21 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as set out in our Audit Charter and Standard 1100.



# MID KENT AUDIT

## The Impact of Covid-19

6. We presented our [2020/21 audit plan](#) to Members on 11 March based on a then-current view of the risks faced by the authority. After then the risk landscape changed substantially. We also needed to reflect our reduced capacity given the extended overhang of 2019/20 plan completion arising from staff redeployment. In total that redeployment supporting all four partner authorities came to almost 350 auditor days, helping support community hubs and manage grants to local businesses.
7. We presented a changed 2020/21 audit plan to Members on 30 September 2020. We have used that new plan to describe results in this report.

## Head of Internal Audit Opinion

### Scope and time period

8. I provide this opinion to Swale Borough Council (the Council) to include in its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2021.

### Scope limits

9. The role of internal audit need not cover only assurance and may extend towards consultancy, advice and strategic support. We have agreed with the Committee the overall scope of our work in our [Internal Audit Charter](#) and the specific scope of our work this year in our approved [20/21 Audit & Assurance Plan](#).
10. However our audit plan cannot address all risks across the Council and represents our best use of inevitably limited capacity. In approving the plan, the Committee recognised this limit. Beyond this general disclaimer, I have no specific limits of our scope to report to the Committee.

### Consideration of work completed and reliance on others

11. I have drawn my opinion from the work completed during the year. I first set out the work in the plan approved by Members on 11 March 2020 and later developed it in line with emerging risks and priorities. I particularly ask that Members note the adjustments set out above following on from the Covid-19 pandemic. I set out the most significant of these adjustments in a revised plan on 30 September 2020.

# MID KENT AUDIT

12. In completing my work I have placed no specific reliance on external sources.

## Information supporting the opinion

13. The rest of this report summarises the work completed in delivering the internal audit plan through 2020/21.
14. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within our work programme. For risks not directly examined I am satisfied an assurance approach exists to provide reasonable assurance on effective management.

## Risk and control

15. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
16. The Council has described key parts of its internal control and risk management within the Local Code of Governance and Risk Management Framework.
17. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.
18. In completing our work we have considered the control environment and objectives in place at the Council.

## Conformance with standards

19. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.

# MID KENT AUDIT

20. During 2020/21, as the Standards demand, we undertook an external quality assessment. After a competitive procurement we commissioned an external assessor from the Chartered Institute of Public Finance and Accountancy (CIPFA) to report on our conformance with the Standards and the overall quality of the service.
21. The assessor decided that Mid Kent Audit works in full conformance with the Standards. We include the full report as an appendix and summarise its findings later in this report.
22. We also describe later in this report our efforts towards continuing improvement and the results of our Quality and Improvement work.

## Overall conclusion

### *Internal Control*

23. I am satisfied that during the year ended 31 March 2021 the Council managed its internal controls to offer sound assurance on control effectiveness.

### *Governance*

24. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2021 comply in all material respects with guidance on proper practices<sup>1</sup>.

### *Risk Management*

25. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2021 are effective and provide sound assurance.

### *Other Matters*

26. I have no other matters to report as part of my opinion.



Rich Clarke CMIIA CPFA ACFS  
Head of Audit Partnership

July 2021

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<sup>1</sup> "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016).

# MID KENT AUDIT

## Internal Control

27. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
28. We gain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan.

## Swale Audit Plan Work 2020/21

29. This Committee approved our [2020/21 Audit & Assurance Plan](#) on 11 March 2020 and then a [changed plan](#) on 30 September 2020. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during September 2020 and continued working through to July 2021.
30. The table below shows progress in total number of days delivered against the original plan, and the revisions we made to account for staff redeployment.

Category	2020/21 Original Plan	2020/21 Changed Plan	2020/21 Outturn
2020/21 Engagements	300	218	208
Non-Project Assurance Work	90	84	61
Unallocated Contingency	60	48	47
<b>Total</b>	<b>450</b>	<b>350</b>	<b>316</b>
Concluding 2020/21 work	0	0	89

31. Our final delivery was 316 audit days. This represents, accounting for revisions and changes to approach and risk, roughly 90% completion of the plan.
32. In our September changed plan we detailed 17 audit potential engagements, 8 High and 9 Medium priority. Our aim was to complete all the High priority engagements and 4 of the Medium priority engagements. We have completed 7 High Priority and 4 Medium priority engagements.
33. Considering the broader assurance sources described in this report, I am satisfied this provides enough evidence to support a robust year end opinion.
34. We detail the specifics, and results, of this progress further in this report.

# MID KENT AUDIT

## Results of Audit Work

35. The tables below summarise audit engagement findings up to the date of this report. Where there are material matters finished before the committee meeting we will provide a verbal update. (\* = Shared service involving the Council).

## Completed Assurance Engagements

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
<b>2019/20 Assurance Engagements Completed After 1 April 2020</b>					
	Social Media	3 x <b>Med</b> , 2 x <b>Low</b>	Jun-20	<b>Sound</b>	Summarised to Members in our last Annual Report September 2020
	ICT Technical Support*	4 x <b>Low</b>	Jul-20	<b>N/A</b>	
	Development Management (Major)	2 x <b>Low</b>	Sep-20	<b>N/A</b>	
	Property Income	None	Sep-20	<b>N/A</b>	
	Homelessness	3 x <b>Low</b>	Sep-20	<b>N/A</b>	
	Council Tax Recovery & Write-Offs	1 x <b>Med</b> , 1 x <b>Low</b>	Sep-20	<b>N/A</b>	
	Budget Monitoring	4 x <b>Low</b>	Oct-20	<b>N/A</b>	Summarised to Members in our Interim Report December 2020
	Health & Safety	None	Oct-20	<b>N/A</b>	
	Member Development	1 x <b>Low</b>	Oct-20	<b>N/A</b>	
I	Procurement	2 x <b>High</b> , 2 x <b>Med</b>	Dec-20	<b>N/A</b>	
<b>High Priority 2020/21 Engagements (as set out in September Plan). Aimed to complete 100% of engagements (8/8).</b>					
II	Electoral Registration	1 x <b>Med</b>	Dec-20	<b>Sound</b>	
III	Contract Management	3 x <b>High</b> , 2 x <b>Med</b> , 2 x <b>Low</b>	Apr-21	<b>Weak</b>	
IV	Rough Sleeper Service	5 x <b>Med</b> , 3 x <b>Low</b>	Jun-21	<b>Sound</b>	
V	Community Hub Support	N/A	Jun-21	<b>N/A</b>	Switched to all-partnership report
	Remote IT Access*	CURRENTLY ISSUED IN DRAFT			Final expected Jul-21

# MID KENT AUDIT

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
	Air Quality*	CURRENTLY ISSUED IN DRAFT			Final expected Jul-21
	Bailiff Service*	CURRENTLY ISSUED IN DRAFT			Final expected Jul-21
	Rent Deposit Scheme	Engagement not taken forward as scheme now works as part of landlord management (audited 2019)			
<b>Medium Priority 2020/21 Engagements (as set out in September Plan). Aim to complete 40% of engagements (4/9).</b>					
VI	Cemeteries	3 x <b>Med</b> , 3 x <b>Low</b>	May-21	<b>Sound</b>	
VII	Climate Change Response	1 x <b>Low</b>	Jun-21	<b>Strong</b>	
VIII	IT Asset Management*	3 x <b>Med</b> , 3 x <b>Low</b>	Jul-21	<b>Sound</b>	
IX	Developer Income	2 x <b>High</b> , 2 x <b>Med</b> , 4 x <b>Low</b>	Jul-21	<b>Sound</b>	
	Accounts Payable	Proposed medium priority projects not taken forward in 2020/21 in favour of those presenting higher risk.			
	General Ledger				
	Income Management				
	Project Management				
	Pay & Display Parking*				

# MID KENT AUDIT

## **I: Procurement (December 2020)**

36. The Council has a sound set of written procedures to ensure lawful and effective procurement. Our work identified a good general compliance with these rules and the Council's Contract Standing Orders (CSOs). However, we identified several instances in the detail of buying where managers were unclear on CSO demands. This includes completing risk and financial assessments, and applying thresholds consistently. The CSOs are widely available and supported by guidance. But we the Council has no professionally qualified procurement staff to help advise managers on their application.
37. The CSOs advise that managers should seek waivers only exceptional circumstances. We found that they are a relatively routine event, with an average of one waiver approved every week. We understand the Council is about to revise its CSOs. This is an opportunity to consider how best to frame and publicise rules that ensure waivers return to exceptional use.

## **II: Electoral Registration (December 2020)**

38. We found there are appropriate controls in place to deliver well-run electoral registration services and to control the associated risks. The processes we reviewed (to receive applications, confirm registration, and amend and delete entries on the register) all comply with Electoral Commission guidance. Sound procedures are in place to set up absent voters and special category electors, while we also found the register is updated in accordance with the required timescales. Our testing did, however, highlight one minor issue regarding the time taken to issue renewal reminders to special category electors.

## **III: Contract Management (April 2021)**

39. Lead Officers responsible for contract management have experience and a detailed knowledge of the service they oversee. We did not identify any significant issues on any individual contracts tested. However, we found the Council lacks central oversight of its contracts and their management.

# MID KENT AUDIT

## IV: Rough Sleeper Service (June 2021)

40. The Rough Sleeper Service has committed staff who have continued to work throughout the Covid Pandemic. The Service also adjusted effectively to the pandemic by increasing accommodation options for rough sleepers and establishing a Housing Needs and Support Group with external partners. We found there are sound processes in place to ensure officers identify rough sleepers and support them into accommodation through effective partnership working. A Member approved Strategy documents the strategic direction and officers regularly provide progress reports in an annual action plan.
41. However, our testing found some areas for improvement. Officers haven't documented all processes in procedures notes meaning they are not adequate to detail how the service operates. Service health and safety risk assessments have not been completed on all areas of operation, including the Rough Sleeper Count and the Royal Hotel accommodation. Not all officers have received the specialist training set out by central government with reliance being placed on officers' experience.

## V: Community Hub Support (June 2021)

42. The task handed to authorities was new and urgent. There was no 'standard operating procedure'. However the various approaches authorities adopted shared certain similar characteristics; "convergences" where a similar idea became adopted universally. On the other hand we also draw out the "divergences"; where authorities took different approaches to similar challenges. We do not in this report give any view on which approach was most effective. Each authority adapted to its circumstances in the face of unprecedented challenge. Instead this report highlights some of those approaches to supplement developing emergency planning arrangements.



# MID KENT AUDIT

**Overall Summary Table: The Convergences and Divergences on Community Hub Approaches**

Type	Understanding need	Communicating with vulnerable communities	Managing delivery	Project reflection
<b>Convergences</b>	<ul style="list-style-type: none"> <li>- Offering support beyond minimum CEV</li> <li>- Teams for triage, distribution &amp; social isolation</li> </ul>	<ul style="list-style-type: none"> <li>- Dedicated phone</li> <li>- Website forms</li> <li>- Out of hours service</li> <li>- Links to community organisations</li> </ul>	<ul style="list-style-type: none"> <li>- Using existing emergency planning approaches</li> <li>- Redeploying staff from closed facilities</li> <li>- Single nominated lead officer</li> <li>- Signposting to voluntary organisations</li> <li>- Following standard admin &amp; finance rules with dedicated accounts coding</li> <li>- Shared folders and filing</li> <li>- Role descriptions &amp; procedure notes</li> </ul>	<ul style="list-style-type: none"> <li>- Project reflection report</li> <li>- Used to inform similar future events</li> <li>- Adapted emergency planning response</li> </ul>
<b>Divergences</b>	<ul style="list-style-type: none"> <li>- Using own data to identify vulnerable residents (ABC/SBC)</li> <li>- Using commercial and mapping data to identify support need (ABC)</li> </ul>	<ul style="list-style-type: none"> <li>- Letter to residents (SBC/TWBC)</li> <li>- Linking to residents-led Facebook groups (TWBC)</li> <li>- Dedicated "help@" inbox (ABC)</li> <li>- Social isolation focused website (TWBC)</li> </ul>	<ul style="list-style-type: none"> <li>- Creating risk register (SBC)</li> <li>- Dedicated inboxes for teams (SBC/MBC/TWBC)</li> <li>- Live data collection and stats analysis (MBC)</li> <li>- Online training for volunteers (SBC)</li> <li>- Using MS Teams extensively to co-ordinate and retain documentation (ABC)</li> <li>- Risk assessed local groups to establish best partners to deliver services (ABC)</li> </ul>	

# MID KENT AUDIT

## **VI: Cemeteries (May 2021)**

43. The Council's Cemetery controls work to keep risks managed effectively. From our testing we see the Council completes all necessary administrative steps substantially in line with the Local Authorities Cemeteries Order. This includes carrying out internments with proper authority and keeping Burial Registers and Cemetery Plans. We identified some minor defects, principally arising from a reliance on hard copy registers and paper plans that lack flexibility in use and are difficult to consolidate. In particular, we note the need for improvements around administration of Exclusive Rights of Burial arrangements.
44. The Council has properly approved advertised fees for all cemeteries. However, officers only included the new Iwade cemetery among those approvals after prompting by this audit. The Council also properly accounts for all fees and charges received. However we note a need to clarify arrangements on how and when officers offer and discounts.

## **VII: Climate Change Response (June 2021)**

45. The Council uses the Climate and Ecological Emergency (CEE) Action Plan to drive and track its progress towards carbon neutrality by 2025. The Plan draws on information from the internationally-recognised Carbon Trust, who made several recommendations for inclusion. We found the Council had acted effectively on those recommendations in drawing up and overseeing the Plan.

## **VIII: IT Asset Management (July 2021)**

46. Mid Kent ICT runs an Asset Management System (*Snow*) which automatically updates when users login. The system provides a good level of oversight on the location and ownership of council IT assets. However, the system has a weakness to address arising when assets are out of use for 30 days or more and so do not have their status updated automatically. While general level of encryption is increasing as new machines come into use, a narrow majority (56%) remain unencrypted, but protected by password controls.
47. We also found a lack of documentation and record-keeping, some processes having fallen out of use over the past two years. In particular there is no consistent 'check-in and check-out' documentation. The service cannot say with certainty users have accepted assets or returned them on departure.

# MID KENT AUDIT

48. We found good controls around buying IT assets. However, the service must ensure it complies with rules for high value assets. The service must also improve its documentation around asset disposal.

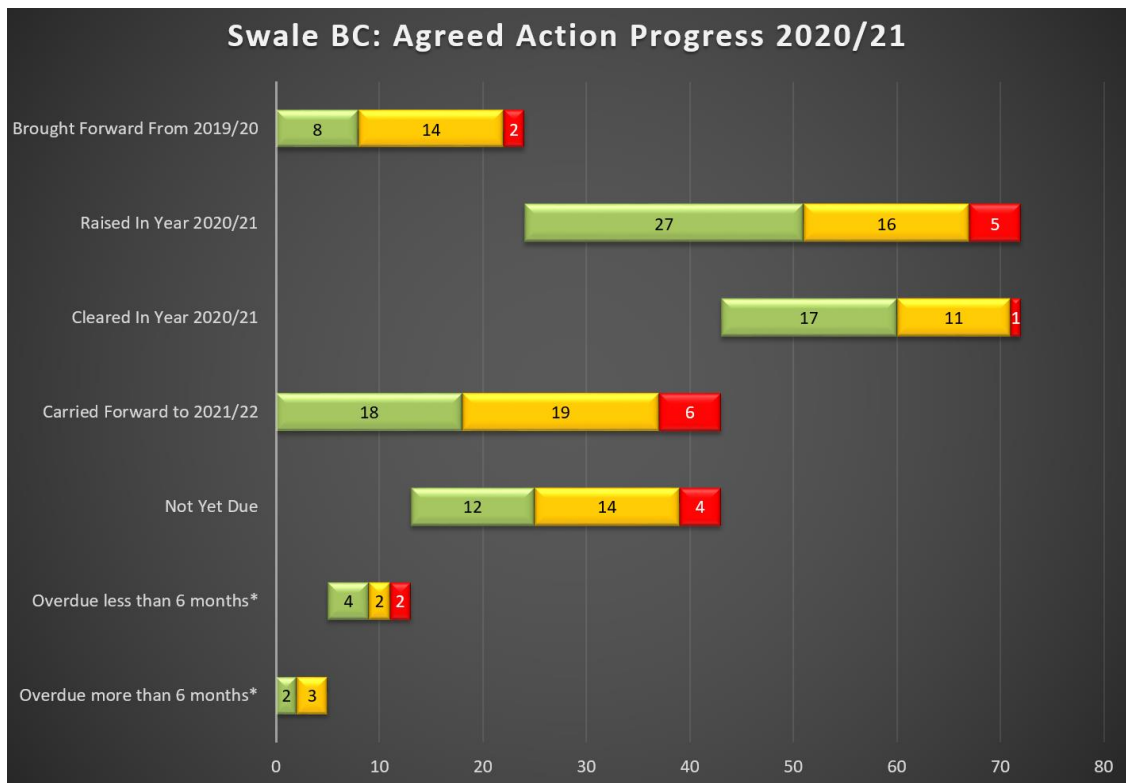
## **IX: Developer Income (July 2021)**

49. We found that there is a structured approach for the processing of S106 agreements with responsibility for the overall process clearly assigned. Software (Exacom) is in place for documenting and monitoring S106 agreements. Although a reconciliation is needed between Exacom and Agresso to ensure all S106 information is included in Exacom.
50. Invoicing is timely and our testing found that funds are obtained from developers. However, improvements need to be made to ensure that non-financial contributions are being met by developers. Responsibility for doing this should be clarified and post-development reviews will ensure all the obligations in a S106 agreement were complied with.
51. A few further areas for improvement were also identified, namely: improving record keeping for developer and 3<sup>rd</sup> party communications, enhancing procedures and establishing a S106 group to facilitate discussion between officers.

# MID KENT AUDIT

## Following Up Actions

52. Our approach to agreed actions is that we follow up each quarter, examining those that fell due in the previous three months. We take due dates from the action plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. Our report includes matters of continuing concern and where we have revisited an assurance rating (typically after action to address key findings).
53. We summarise the current position below. The chart shows low priority actions (at the left of each bar) in green, medium priority in amber (in the middle) and high priority in red (at the right of the bars).



\*: 'Overdue' concerns the date agreed in the final report and up to 1 April 2021

54. During the year we reviewed 72 separate agreed actions. Both overdue high priority actions concern our January 2020 report on Officers' Declarations of Interest. They concern linking declarations with other Council work, such as procurement. The Council has asked, and we have agreed, to defer action until September 2021 to go with a broader review of procurement as part of its restructure.
55. Overall we are content with officers' progress on acting to address findings we raise in our reviews.

# MID KENT AUDIT

## Corporate Governance

56. Corporate governance is the rules, practices and processes that direct and control the Council.
57. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.

## Counter Fraud & Corruption

58. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

### *Whistleblowing, money laundering and investigations*

59. The Council's whistleblowing policy names internal audit as one route for Members and officers to safely raise concerns on inappropriate or even criminal behaviour.
60. We have had no matters raised with us for investigation as whistleblowing complaints.
61. We have also had no matters raised with us noting concerns that may suggest a breach of money laundering regulations.

### *Investigations*

62. We had no matters brought to us for investigation during the year.

### *National Fraud Initiative*

63. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.
64. During 2020/21 we successfully co-ordinated the Council's compilation and upload of data to the Cabinet Office. Earlier this year the Cabinet Office released the 2020/21 matches, which we will begin examining this autumn.

# MID KENT AUDIT

## **Risk Management**

65. We reported separately to Members on 10 March 2021 on risk management work during 2020/21.

## **Other Audit and Advice Work**

66. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance as part of the Wider Management Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers.
67. Remote meetings and the Covid pandemic have put on hold our series of Member briefings. We are hoping to restart these briefings during 2021/2 and are keen to hear from Members on any areas of interest which may form future sessions.
68. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

# MID KENT AUDIT

## Audit Quality & Improvement

### Standards and ethical compliance

69. Government sets out the professional standards we must work to in the **Public Sector Internal Audit Standards** (the “Standards”). These Standards are a strengthened version of the Institute of Internal Audit’s global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
70. The Standards include a specific demand for reporting to Senior Management and Audit Committee on our conformance with the Code of Ethics as well as the Standards themselves. We have included the Code within our Audit Manual and training for some years. We can report to Members we remain in conformance with the Code.

### External Quality Assessment & Quality Assurance Plan

71. In September 2020 we reported to Members our second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider and we updated Members on their progress. The table below summarises our progress on the remaining actions:

Recommendation	Current Position
Enhance declaration of interest forms for audit staff	New form rolled out as part of annual planning and completed by all staff in March 2021. <b>Complete</b>
Renew collaboration agreement	See following section. <b>In progress</b>

72. In our 2021/22 Audit & Assurance Plan reported to Members we described our **Quality Assurance Plan**. This Plan aims to ensure we uphold high quality in a changing profession by setting out our methods for periodic and spot-check reviews of our methods and approaches. Recent progress against that Plan includes:
- *Ethics*: We overhauled our approach to collecting and monitoring information on declarations of interest within the audit team.
  - *Client Liaison*: We have set up a group within the audit service to examine the information we share with clients to support engagements. We expect that improved approach to begin in 2022/23.

# MID KENT AUDIT

- *Review Process:* We undertook a review within the audit team on perspectives of how we review work to guarantee quality and drive professional development. This review resulted in a number of tweaks to our reviews beginning in 2021/22.
- *Assurance Ratings & Finding Priorities:* After having kept the same ratings since 2014/15 we completed a substantial review project looking at other approaches across the world. We also consulted client officers and brought forward proposals internally in the Spring. We will trial these changes in select engagements aiming to settle proposals to begin in 2022/23.
- *Sample and item testing:* We have just begun a project looking at how we undertake sample testing during audit engagements. This project will aim to ensure we make use of a full range of testing methods, including data analytics, to improve the efficiency and effectiveness of our assurance. We aim to complete this project before the end of 2021 and potentially roll out new testing methods during 2022.

73. Alongside these specific reviews we also continue our routine liaison with the audit profession to identify and bring forward best practice. To that end we are deepening links with major professional bodies (IIA and CIPFA) as well as groups such as the Local Authority Chief Auditors' Network (LACAN).

## Collaboration Agreement

74. Our EQA identified the need to update the audit shared service collaboration agreement. This agreement, which forms the legal basis of the partnership's work, expired in March 2019. However all four authorities have continued to follow its terms in expectation that a new agreement will follow.
75. We have completed a first round of consultation with all four authority partners. This has given a broad steer to what will feature in a fresh agreement:
- A **continuing agreement**, rather than having a specific expiry date. This will include terms for periodic review as well as setting out terms for authorities to join or leave the partnership.
  - An agreement that covers the **full scope of Mid Kent Audit's work**. Currently the agreement only specifies audit services. A future agreement will recognise and govern our broader risk management, counter fraud and governance work.



# MID KENT AUDIT

- A fresh **financial settlement**. The existing agreement set division between the partners at 2014 levels with no means of adjustment. A fresh agreement will provide a method for calculating split between authorities and contain terms for changing over time.
- Clarified **governance arrangements**. The new agreement will make clear how Partnership's work is supervised and overseen involving all four (current) partner authorities.
- Scope for authorities to **tailor their service**. The new agreement will keep direction to a minimum. Thus recognising the role of Senior Management and Audit Committee Members in deciding a level and nature of internal audit provision that meets their governance needs.

76. The next steps are to translate these terms into a legal document for agreement among the partners. We hope to have the new collaboration agreement in place to begin 1 April 2022.

## Training and Qualifications

77. We continue to offer strong support to the audit team in continuing development and upholding professional competence. In 2020/21 this involved providing individual training budgets and supporting people to follow avenues for development suitable for their career position and ambitions.

78. A key but far from sole part of this approach is supporting professional qualifications. During 2020/21 we supported several of the team through professional studies and remain pleased with their progress and success. We would like to highlight:

- **Jen Warrillow**: Achieved the full Chartered qualification from the Institute of Internal Audit. She is now eligible to apply for full Chartered status and use the professional suffix CMIIA.
- **Cath Byford & Katie Bucklow**: Our two apprentices continue making good progress through their professional qualifications. They are studying through Birmingham City University and each received a distinction pass on their latest University exams. As well, Cath (who began her apprenticeship six months before Katie) has recently completed the full *Certified Internal Auditor* qualification, becoming entitled to use the professional suffix CIA.

# MID KENT AUDIT

79. One feature of being a small and developing team is that sometimes opportunities for advancement will not arise coincidentally when individuals are ready for their next step. During the last few months we've lost three further members of the audit team to promotions elsewhere. We wish them well and hope that seeing the 'Mid Kent Audit' family spreads across the profession will strengthen our reputation.
80. However, they leave a significant gap behind with five of our twelve posts now being vacant. We will shortly embark on a major recruitment exercise to fill the vacancies. We are grateful for the continuing support of partner authorities in recognising the value of an effective internal audit service.
81. Finally, Members will recall in the Spring we had the honour of being shortlisted by the Institute of Internal Audit's "Audit & Risk Awards 2021" as 'Best Public Sector Audit Team'. Unfortunately we were not successful on the night, and congratulate [Scottish Enterprise](#) who took home the awards. You can see the full list of winners on the IIA's website at this link.
82. However, simply being shortlisted is a notable honour, picked by the IIA from more than 50 services put forward. This is especially so as being the smallest and only district council team recognised. Unfortunately the acceptance speech will have to remain in the drafts folder, but maybe next year?



## Acknowledgements

83. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
84. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
85. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

# MID KENT AUDIT

## Annex 1: Assurance & Priority level definitions

### Assurance Ratings 2020/21 (Unchanged from 2014/15)

Full Definition	Short Description
<p><b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p><b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p><b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>
<p><b>Note for reports issued during the COVID-19 Emergency</b></p> <p>During this period we have temporarily moved away from giving a single word assurance rating back to a narrative conclusion balancing the strengths and weaknesses of controls in a service. The aim is to streamline discussion at the point of closing a review and allow the discussion to move swiftly on to implementing the agreed actions.</p>	

# MID KENT AUDIT

## Recommendation Ratings 2020/21 (unchanged from 2014/15)

**Priority 1 (Critical)** – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

**Priority 2 (High)** – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

**Priority 3 (Medium)** – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

**Priority 4 (Low)** – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

**Advisory** – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	26 <sup>th</sup> July 2021
<b>Report Title</b>	Audit Committee Annual Report 2020-21
<b>Cabinet Member</b>	Cllr Roger Truelove - Leader of the Council
<b>SMT Lead</b>	Nick Vickers – Chief Financial Officer
<b>Head of Service</b>	Rich Clarke –Head of Audit Partnership
<b>Lead Officer</b>	Alison Blake – Audit Manager
<b>Key Decision</b>	No
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<ol style="list-style-type: none"><li>1. That the Audit Committee Annual Report for 2020/21 (appendix I) is <b>agreed</b>.</li><li>2. That the Chairman of the Audit Committee presents the report to a meeting of Full Council to demonstrate how the Committee has discharged its duties.</li></ol>

## **1 Purpose of Report and Executive Summary**

- 1.1 The report details how the Audit Committee effectively fulfilled its duties during 2020/21. This report provides assurance to the Council that the Committee has monitored and addressed issues of governance, risk management and internal control throughout the year.

## **2 Background**

- 2.1 The Audit Committee is required to monitor internal and external audit activity, review and comment on the effectiveness of the Council's governance framework and review and approve the Council's annual statement of accounts.

## **3 Proposals**

- 3.1 To agree the Audit Committee Annual Report as attached in Appendix I.
- 3.2 That the Chairman of the Audit Committee presents the report to a meeting of the Full Council setting out how the Committee has discharged its duties.

## **4 Alternative Options**

- 4.1 The production and presentation of an annual report is required by this Committee's terms of reference. Therefore, no other alternative could be recommended.

## **5 Consultation Undertaken or Proposed**

5.1 The draft report was sent to the Chairman of the Audit Committee for consultation prior to submission for this meeting.

## 6 Implications

Issue	Implications
Corporate Plan	None identified at this stage.
Financial, Resource and Property	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.
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	The role of the Audit Committee requires it to consider the effectiveness of the Council's risk management arrangements.
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: Audit Committee Annual Report 2020-21

## 8 Background Papers

8.1 None

# **Audit Committee Annual Report**

**July 2021**



## Statement from the Chairman

As the Chair of the Audit Committee, it is my pleasure to introduce the annual report, providing an overview of the Committee's activity during the Municipal Year 2020/21.

The Council has continued to face big challenges because of the Covid-19 pandemic. As a Committee we have maintained our focus on the issues facing the Council from a risk, control and governance perspective. This report looks back and gives us opportunity to reflect on the activity and achievements of the Committee during the Municipal Year 2020/21.

During the year we have continued to meet remotely, and the Committee has convened three times. Looking ahead to 2021/22 we will see further changes to how we meet.

The Committee has discharged its responsibility to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment. We have also provided robust scrutiny and challenge of the Authority's financial performance.

Among the highlights for the year I am pleased to note a further unqualified accounts opinion and value for money conclusion from our external auditors. Alongside this our internal auditors provided us with a positive opinion on the Council's control and governance. We also reviewed the updated Corporate Risk Register, and a revised internal audit plan reflecting the impact of the pandemic.

I would like to take this opportunity to thank Members and Officers that have supported the Committee over the last year. Their professionalism, integrity, and openness have helped us to discuss, challenge and debate key issues and agree solutions and improvements where appropriate to do so.



Councillor Simon Clark – Audit Committee Chairman



# Purpose of the Committee

The Audit Committee operates in accordance with the [Audit Committees, Practical Guidance for Local Authorities](#). This guidance (updated in 2018) sets out the purpose of an Audit Committee and is published by the Chartered Institute of Public Finance (CIPFA).

## Swale Borough Council Audit Committee Purpose:

To consider summaries of internal audit reports produced and review management action taken on associated recommendations. To consider and comment upon any items relevant to the internal audit function. To receive the annual management letter and report from the Council's External Auditors, to include any value for money studies.

The Committee is independent from other executive management and Cabinet and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix 1a). This includes direct access to the Council's Appointed Auditors and Head of Audit Partnership without the presence of other Officers, where appropriate.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework, and reviews and approves the Council's annual statements of accounts.

The Committee is not a substitute for the management function in relation to internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

# Membership & Meetings

During 2020/21 the Audit Committee was comprised of 9 Members and met 3 times.

The Committee is supported throughout the year by senior officers and managers of the Council who are regularly present. In addition, the Council's External Auditors (Grant Thornton) regularly attend meetings of the Committee.

The following table outlines Member and Officer attendance at 2020/21 Audit Committee meetings.

Member	Role	Audit Committee Meeting Date		
		30-Sept-2020	25-Nov-2020	10-Mar-2021
Cllr Simon Clark	Chair	Present	Present	Present
Cllr James Hall	Vice-Chair	Present	Present	Present
Cllr Derek Carnell	Member	Present	Present	Present
Cllr Simon Fowle	Member	Present	Present	Present
Cllr Ann Hampshire	Member	Present	Present	Present
Cllr Nicholas Hampshire	Member	Present	Present	Present
Cllr Peter MacDonald	Member	Present	Present	Present
Cllr Julian Saunders	Member (to 15 Mar' 2021)		Present	Present
Cllr Steve Davey	Member (from 15 Mar' 2021)	Present (sub)	Present	Present
Cllr Denise Knights	Member	Present	Present	Present
<i>Cllr Ken Rowles</i>	<i>Visiting</i>	<i>Present</i>	<i>Present</i>	<i>Present</i>
<i>Cllr Tim Gibson</i>	<i>Visiting</i>	<i>Present</i>	<i>Present</i>	<i>Present</i>
<i>Cllr Cameron Beart</i>	<i>Visiting</i>		<i>Present</i>	<i>Present</i>
<i>Cllr Carole Jackson</i>	<i>Visiting</i>	<i>Present</i>	<i>Present</i>	
<i>Cllr Elliott Jayes</i>	<i>Visiting</i>		<i>Present</i>	
<i>Cllr Hannah Perkin</i>	<i>Visiting</i>		<i>Present</i>	
Officer	Capacity	Audit Committee Meeting Date		
		30-Sept-2020	25-Nov-2020	10-Mar-2021
Nick Vickers	Chief Financial Officer	Present	Present	Present
Phil Wilson	Financial Services Manager		Present	
Rich Clarke	Head of Internal Audit	Present	Present	Present
Alison Blake	Audit Manager	Present	Present	Present
Darren Wells	External Audit	Present	Present	Present
Trevor Greenlee	External Audit		Present	
Kellie MacKenzie	Committee Services	Present	Present	Present
Ryan Miles	Committee Services	Present	Present	
Billy Attaway	Committee Services			Present

We did not arrange any all-Member training sessions for 2020/21 but Members have been able to consult Officers with questions outside of the meetings. The Committee will consider training opportunities as needed during 2021/22.

All Committee agendas, papers and minutes are available on the [Council's website](#).

## Activity

Over the course of the year the Committee considered, examined and made decisions on the following areas within its Terms of Reference:

<b>Finance Activity</b>
Annual Treasury Management Review for 2019/20
Mid-Year Treasury Management Review for 2020/21
Annual Financial Report 2019/20 and Audit Findings Report
<b>Internal Audit Activity</b>
Annual Internal Audit Report & Opinion 2019/20
Updated Internal Audit & Assurance Plan 2020/21
Interim Internal Audit & Assurance Report 2020/21
Internal Audit Plan 2021/22
<b>External Audit Activity</b>
External Audit Plan 2019/20: Covid-19
External Audit Progress Report
2019/20 Annual Audit Letter
<b>Other Activity</b>
Audit Committee Annual Report 2019/20
Audit Committee Risk Management Update – Corporate Risk Register
Annual Risk Management Report

# Sources of Assurance

Audit Committee have drawn on a variety of sources of assurance to fulfil their responsibilities. During 2020/21 assurance from the following sources was considered:

<b>Finance Activity</b>
The Committee reviewed and provided challenge on the annual accounts prior to their approval and publication.
The Committee reviewed the Annual Governance Statement which supported the overall conclusion of the Head of Internal Audit Opinion and identified actions for improvement. The Committee specifically gained assurance from this document as it explains the processes and procedures in place to enable the Council to carry out its functions effectively.
<b>Internal Audit Activity</b>
The Council received an unqualified Annual Opinion from the Head of Internal Audit. This opinion considers the overall adequacy and effectiveness of the authority's framework of governance, risk management and control arrangements.
Both the updated 2020/21 and the 2021/22 audit plans included detail of audit assurance work for the year with 2020/21 being updated for the impact of covid-19. The Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.
<b>External Audit Activity</b>
The External Auditors presented an unqualified opinion for the Council's financial statements and value for money conclusion for 2019/20. The Committee provided effective challenge to the External Auditors and gained assurance from the reports and updates provided by Grant Thornton during the year.
<b>Other Activity</b>
The annual risk management report provided an overview of the effectiveness of the Council's risk management framework and the controls in place to manage corporate and operational risks.
A report detailing the Council's new Corporate Risk Register and the actions in place to manage these risks.

## Conclusion

The Audit Committee has worked in partnership with the Council's Internal and External Auditors and received support from Officers. This has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues.

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2020/21 as set out in the respective minutes.

## Appendix Ia – Audit Committee Terms of Reference

Audit Activity	Regulatory Framework	Accounts
<p>To consider the Head of Audit Partnership’s annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council’s governance arrangements, and any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.</p>	<p>To review any issue referred to it by the Chief Executive or a Director or any Council body.</p> <p>To monitor the effective development and operation of risk management and corporate governance in the Council.</p>	<p>To review and approve the annual statement of accounts. Specifically, to consider whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Cabinet or the Council.</p>
<p>To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the 3 year Strategic Internal Audit Plan.</p>	<p>To monitor council policies on ‘Whistleblowing’ and the ‘Antifraud and Corruption Strategy’.</p>	<p>To consider the external auditor’s report to those charged with governance on issues from the audit of the accounts.</p>
<p>To consider the external auditor’s annual letter, the report to those charged with governance, and any specific reports as agreed with the external auditor.</p>	<p>To consider and comment on the authority’s Annual Governance Statement and agree its adoption as part of the approval of the annual accounts.</p>	<p>To be responsible for ensuring effective scrutiny of the treasury management strategy and policies (Note: Council is responsible for adopting the Treasury Management strategy and policy).</p>
<p>To liaise with the Audit Commission over the appointment of the Council’s external auditor, comment on the scope and depth of external audit work and ensure that it gives value for money.</p>	<p>To consider the council’s arrangements for governance and whether adequate safeguards are in place to secure compliance with its own and other published standards and controls and best practice.</p>	<p>To present an annual report to the Council providing assurance that the responsibilities of the Committee have been met.</p>

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# Swale Borough Council audit plan

Year ending 31 March 2021

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Agenda Item 6

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## Your key Grant Thornton team members are:

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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 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

## Factors

### Council developments

The Council's financial position over the coming years is increasingly challenging. The pandemic has resulted in additional spending pressures. In the third quarter financial management report, the Council had prepared for a potential forecast year-end overspend of £4.1 million. In the short term the government is providing financial support to meet some of these pressures. The estimated allocation from central government to the Council is £4.5 million per the third quarter reporting. The actual amount received by the Council in year for Covid grants will be tested during the audit.

The impact of the pandemic continues to be the key driver for the overspend within departments, including unanticipated costs for new service provision in dealing with the health crisis and the impact on income generation as a result of the national lockdown measures and the economic impact.

### Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has kept critical services going at the same time supporting the Covid 19 national effort. The Council has delivered food parcels, accommodated rough sleepers, offered restart grants, boosted hardship funds, assisted tenants struggling to pay rents and service charges and provided further support to residents in receipt of Council Tax Support and vulnerable people. The Council has also assisted with testing programmes and vaccine administration by helping with site preparation and logistics and in communications and engagement with local communities to encourage uptake of the vaccine.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

# Key matters

## Factors

### New Code of Audit Practice

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

### Accounting and auditing developments

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the Council's share in Kent CC Pension Fund directly held property and pooled property funds within the assets of the pension fund. We will monitor the position for the 31 March 2021 valuations.

## Our response

- As part of our planning work, we considered whether there were any risks of significant weakness in the council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on.
- We will consider your arrangements for managing your financial sustainability as part of our Value for Money work.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Fee discussions are currently in progress between audit firms and PSAA. Our audit plan sets out the proposed fee for 2020/21 which reflects additional cost pressures. This is still subject to consideration by PSAA Ltd.
- The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.
- We will liaise with the Council's valuer and Kent CC Pension Fund managers to clarify any potential material uncertainties in 2020-21.
- We will continue to provide you with sector updates via our Audit Committee updates.

# Introduction and headlines

## Purpose

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

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed 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 both of these documents.

## Scope of our audit

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

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

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

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

## Significant risks

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

- The risk that the valuation of Land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

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 £1.56m (PY £1.56m) for the Council, which equates to 2% of your prior year Cost of Service 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 £78k (PY £78k). We will update this on receipt of the draft statement of accounts for audit.

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. Notwithstanding this, the new VfM approach requires us to update our understanding of your arrangements against the expanded VfM scope. We have identified several areas of focus under this increased scope as follows. The requirements of the new Code can be found on page 14:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for improving economy, efficiency and effectiveness through benchmarking against similar organisations, learning from others, and through continued development and modernisation of services. This will consider how different models of service delivery and ways of working brought about by the pandemic may influence longer term plans.
- The Council's arrangements for working in partnership.

## Audit logistics

Our audit will take place between July and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £69,769 (PY: £54,269) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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

# Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions</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>The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition.</li> <li>• Opportunities to manipulate revenue recognition are very limited.</li> <li>• The culture and ethical frameworks of local authorities, including that of Swale Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for the Swale Borough Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals.</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council carries out a rolling programme of valuations that ensures all land and buildings required to be measured at current value is revalued at least every five years. 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>Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of land and buildings, particularly revaluations and impairments, 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"> <li>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>Evaluate the competence, capabilities and objectivity of the valuation expert.</li> <li>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.</li> <li>Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.</li> <li>Assess the value of a sample of assets in relation to market rates for comparable properties.</li> </ul>
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 will:</p> <ul style="list-style-type: none"> <li>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.</li> <li>Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases.</li> <li>Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.</li> <li>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.</li> <li>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</li> <li>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.</li> </ul>

# Other risk identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Error in expenditure recognition	Council	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p> <p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition</li> <li>• opportunities to manipulate expenditure recognition are limited</li> <li>• the culture and ethical frameworks of local authorities, including Swale Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>However we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> <li>• inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period.</li> <li>• inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items.</li> <li>• investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.</li> </ul>
Accounting for grant revenues and expenditure correctly	Council	<p>The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2020/21 relating to Covid-19. Some of these grants relate to the Council, and others are grants which should be passed onto other entities. The Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on that decision how the grant income and amounts paid out should be accounted for.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Discuss with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements;</li> <li>• Understand the conditions for payment out to other entities;</li> <li>• Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and</li> <li>• We will test material grant revenues to see whether the Council has accounted for these correctly.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# 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 to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

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

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

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 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.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.56m (PY £1.56m) for the Council, which equates to 2% of the council's prior year expenditure.

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.

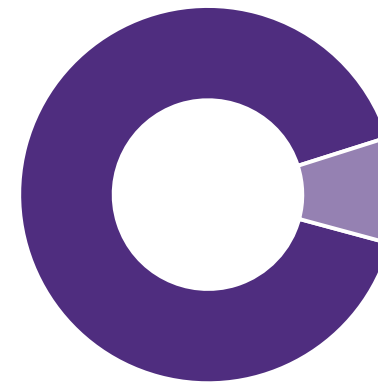
## Matters we will report to the Audit Committee

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. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £78k.

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.

## Prior year cost of service expenditure

£78.M



- Prior year cost of service expenditure
- Materiality

## Materiality

£1.56m

Council financial statements materiality (PY: £1.56m)



£78k  
Misstatements reported to the Audit Committee (PY: £78k)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

Page 52 There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

As part of our planning work, we have considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have:

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Met with your Chief Finance Officer and senior members of your finance team to discuss the current risk profile and outlook for the Council and to discuss and understand any recent changes to the Council's arrangements for securing VFM;

- Reviewed publicly available reports and documentation (including minutes of significant Council meetings), relating to both financial and operational areas of the Council's functions;
- Reviewed risk registers to understand the Council's own view and assessment of the severity of the risks it faces in the current unprecedented times.

We have not identified any risks of significant weaknesses from our initial planning work. We have however identified areas of focus where we would set out to update and deepen our understanding of your arrangements in order to conclude on your arrangements across all the key criteria. These areas of focus are:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for improving economy, efficiency and effectiveness through benchmarking against similar organisations, learning from others, and through continued development and modernisation of services. This will consider how different models of service delivery and ways of working brought about by the pandemic may influence longer term plans.
- The Council's arrangements for working in partnership.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team

Planning and  
risk assessment

Audit  
committee  
July 2021  
Audit Plan

Year end audit  
July to September

Audit  
committee  
September 2021  
Audit Findings  
Report  
Audit Opinion

Audit  
committee  
November 2021  
Auditor's  
Annual  
Report

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## Darren Wells, Key Audit Partner

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

## Oliver Durbin, Audit Manager



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

## Audited body responsibilities

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

## Our requirements

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

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

# Audit fees

PSAA awarded a contract of audit for Swale Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £46,769. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £72,769. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£51,169	£54,269	£69,769

## Assumptions

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

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

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (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.

# Audit fees – detailed analysis

Scale fee published by PSAA	£46,769
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£7,500
Audit fee 2019/20	£54,269
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,500
<i>Proposed increase to agreed 2019/20 fee</i>	£15,500
Total audit fees (excluding VAT)	£69,769



# 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 (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. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

## Other services

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

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 Capital receipts grant	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2019/20 was £26,000 in comparison to the total fee for the audit of £54,769 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance



The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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# Informing the audit risk assessment for Swale Borough Council 2020/21



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.



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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Swale Borough Council's external auditors and Swale Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management,
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Swale Borough Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Covid will be the biggest issue largely because of the huge amount of grant that the Council has received and needs to account properly for.
2. Have you considered the appropriateness of the accounting policies adopted by Swale Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes and there is nothing that makes us conclude we need to change accounting policies.
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	I would put the Covid grants we are administering in this category.

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Swale Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The main area where we have used external lawyers are; continued use of Pinsent Masons on Sittingbourne Town Centre work and Trowers on the housing company. Planning regularly seek the services of QC's on contentious planning matters.

## General Enquiries of Management

Question	Management response
9. Have any of Swale Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Savills have been engaged on three projects; STC lettings (carried over from Spirit of Sittingbourne), advice on Central Stadium and advice on the housing company.

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Swale Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Swale Borough Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have Swale Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes we have well established arrangements for preventing fraud based upon well established internal control processes and review of these by internal audit and external audit.</p> <p>There have been no frauds identified in 2020/21.</p> <p>The Council's risk management process looks more broadly at risk across the Council and was last reported ton the Audit Committee on 10 March. One of our corporate risks relates to resourcing moving forward. The S151 Officer is the lead in the Council on RM and that's how the link is made with financial reporting.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>All payments go though a rigorous control process and there is tight budget management control. These apply to all types of transaction. There are further controls for high value payments.</p>



## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Swale Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>I am not aware of any frauds. SMT receives regular reports on risk management and on the implementation of internal audit recommendations. Risk is a regular agenda item with Informal cabinet and Audit Committee.</p>
<p>4. Have you identified any specific fraud risks?  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within Swale Borough Council where fraud is more likely to occur?</p>	<p>The Council is relatively small with well established internal control processes and a reasonable level of internal audit. So we have not identified any particular fraud risks and there are not particular locations where fraud is more likely to apply.</p>
<p>5. What processes do Swale Borough Council have in place to identify and respond to risks of fraud?</p>	<p>Any potential fraud has to be reported to Internal Audit and the Head of the Audit Partnership will determine what action to take. This is totally independent of the S151 Officer and the Finance Department.</p>

## Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Swale Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The internal control processes are well established, the Finance Department is active in working with other Council Officers and there is reasonable internal audit coverage. The Head of Audit Partnership reports direct to Audit Committee to express his view on assurance levels.</p> <p>There is no undue pressure on managers to achieve financial targets.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
<p>8. How do Swale Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Policies are documented and available to all staff on the intranet.</p> <p>Staff in key areas such as finance, revenues &amp; benefits and procurement have behaviours in particular reinforced.</p> <p>Staff are encouraged to report any suspected irregularity.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>We have not identified any particular posts where there is a higher level of risk. No level of risk is acceptable.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We still have to undertake the related party transaction process for 2020/21 but then the financial year isn't yet over. Once again all members and senior managers will be required to complete a return which is then reviewed in detail by the S151 Officer.</p> <p>I am not aware of any transactions and the process undertaken is to mitigate the risk of fraud.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>All frauds are reported to the Audit Committee.</p> <p>The feedback on the results of each internal audit highlight any breaches of internal control. No frauds have been identified this year.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No I am not aware and I have confirmed with the Monitoring Officer that he has not had any cases of whistle blowing.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No I am not aware and I have confirmed with the Head of Audit Partnership that he has not had any cases.</p>

## Law and regulations

### Issue

#### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Swale Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Swale Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All decision reports are taken through SMT before they can go to member meetings for decision. Legal and financial implications have to be clearly addressed and the S151 Officer and the Monitoring Officer and both members of SMT.</p> <p>Statutory Officers with support from Legal will ensure that all decisions are taken in compliance with the law.</p> <p>There are no significant changes to the regulatory regime.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>It is the responsibility of management to ensure compliance. Internal Audit would report non compliance in specific audits they have undertaken.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Swale Borough Council have in place to identify, evaluate and account for litigation or claims?	The Council is insured with Zurich Municipal. Other costs from litigation are met from reserves.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Related Parties

## Issue

### Matters in relation to Related Parties

Swale Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Swale Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Swale Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Swale Borough Council</li> <li>whether Swale Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>The 2020/21 review has not yet been undertaken. The normal process for members and senior officers will be undertaken in April.</p>
<p>2. What controls does Swale Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The submission of returns and checking by the S151 Officer.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>There have to date been no significant transactions in 11 years as S151 Officer.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Through the process of reports going through Senior Management we would identify any such issues.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Pensions, property plant and equipment and financial instruments, impairment allowance for debtors.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	This is a matter for the judgement of the Council's senior finance officers. In the accounts we include an estimate of a 1% movement in the value which helps officers assess the level of risk.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Primarily through professional advice from Barnett Waddingham, Arlingclose and Wilks Head & Eve with challenge from the Council's finance officers
4. How do management review the outcomes of previous accounting estimates?	Review the issues raised in the previous years audit.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Not anticipated.

## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Commissioning advice directly on property valuations and treasury management and via the KCC Pension Fund on actuarial services.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Through the knowledge and experience of the Council's senior finance staff.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Regular review meetings with those providers.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	This process is overseen by the Council's senior finance officers. There is of course a regular dialogue with the Council's external auditors.

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Yes through the knowledge and experience of senior finance officers.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	These are well established arrangements which have in general met the needs of Grant Thornton over an extended period.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the annual accounts process.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Use of Wilks Head Eve and review by in house qualified valuer and Finance staff	Every year the Council checks the value of assets not subject to a valuation for annual accounts to see that if the actual movement in value for assets in their class who had been valued were applied that this would not result in a material difference to the asset valuations in the Balance Sheet	Wilks Head Eve valuers	Letter of engagement with WHE sets out need for compliance with RICS, CIPFA and the Code	There was no change in methodology for 20/21 other than the value of DRC assets of a significant value dated as at 31 March 2021 and not 1 January 2021 to reduce the risk in change in valuation of assets between 1 January and 31 March for assets of a significant value.
Investment property valuations	Use of Wilks Head Eve and review by in house qualified valuer and Finance staff	All investment assets are revalued annually.	Wilks Head Eve valuers	Letter of engagement with WHE sets out need for compliance with RICS, CIPFA and the Code	No
Depreciation	The Council uses the CIPFA Asset Register software to calculate depreciation and as this includes all the accounting requirements of the Code this reduces the risk of inaccurate depreciation.	The Council operates its own spreadsheet for all assets which calculates depreciation as a check against the figure calculated by the CIPFA Asset software.	CIPFA Asset Register software	Depreciation is provided for on all PPE with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy. Newly acquired assets are not depreciated in the year of acquisition where this does not have a material effect upon the accounts, and depreciation is calculated using the straight-line method.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The Council uses the figures provided by the actuary Barnett Waddingham and reviews them against their own knowledge of pension payments made by the authority.	The Council uses the figures provided by the actuary Barnett Waddingham and reviews them against their own knowledge of pension payments made by the authority.	The Council uses the figures provided by the actuary Barnett Waddingham and reviews them against their own knowledge of pension payments made by the authority.	This year the value of assets will be based on actuals not estimates.	No comment until CIPFA Bulletin for 20/21 accounts has been issued.
Level 2 investments	Value and treatment of CCLA Property Fund as advised by Arlingclose.	The advice of Arlingclose is always reviewed by Finance to ensure that they are happy with it.	Value and treatment of CCLA Property Fund as advised by Arlingclose.	The value of the CCLA's property assets is subject to material valuation uncertainty as a result of the coronavirus.	No
Fair value estimates for Loans	The Council's loans are all with other local authorities and therefore there are no material risks.	The source data is the original value of the loan.	No	The Council's chief objective, when borrowing money, is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. In addition, the Accounts have been prepared on the basis that there has not been a significant increase in the risk of default on loans.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions (including NNDR appeals)	There is a regular reassessment of the Rateable Valuations (RV) of businesses. The provision for alteration of lists and appeals for the 2005 and 2010 RV lists is based on outstanding and forecast future appeals for businesses. For the 2017 RV list, the appeals forecast is based on the assumption made at national level of potential appeals amended to reflect local circumstances and the likelihood of appeals.	The appeals for RV2010 are compared to previous years as a check. For RV2017 the appeals are compared to the movement in the overall RV and the forecast from Analyse Local to check if it is reasonable.	The Council uses Analyse Local to provide forecasts for RV 2005 and RV 2010.	If the number of properties under appeal changes, the provision for appeals would require an additional £101,300 for every 1% increase in total rateable value, under appeal. This is not a material risk. Consultants LGFutures carried out a review of business rate risk for all Kent authorities and concluded that Swale was the lowest risk.	No
Accruals	Accruals are recognised where the value exceeds £1,000.	For accruals greater than £5k, all services must provide supporting documents which will be reviewed by Finance before accepting the accrual. All payments to suppliers for the first two week in the next financial year are reviewed by Finance to check if there are any payments being made in the new year which related to the old year in which case an accrual is made.	No	The risk due to estimation uncertainty is mitigated by the level of accruals and the controls in place.	Yes. For STC project capital accruals will be checked up to end of April.



## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Impairment allowances are calculated on a number of different ways of assessing risk: age of debt, any legal process involved with debtor, credit status of debtor, method of repayment of debt (benefit debt).	In all cases the total debt impairment provision is compared to the total debt as a percentage and then compared to those for previous years before deciding on the final debt impairment to be included in the Accounts.	No	Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. No impairment is calculated for assets which are classified as fair value through profit and loss as the risk is reflected in the movement in their fair value.	No



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