



# The Audit Findings For Swale Borough Council

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**Year ended 31 March 2019**

**July 2019**



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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# Audit Committee 29 July 2019 - To-follow Appendix I for item 8

## Headlines

This table summarises the key findings and other matters arising from the statutory audit of Swale Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit is substantially complete although we are finalising our procedures in the following areas;</p> <ul style="list-style-type: none"><li>• obtaining and reviewing the management letter of representation;</li><li>• reviewing a final version of the financial statements and Narrative Report; and</li><li>• updating our post balance sheet events review to the date of signing our opinion.</li></ul> <p>In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement. Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Your actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31 March 2019 by £1,000,000. Management have concluded that this potential impact is not material to the accounts as a whole, and therefore no amendment has been made to the financial statements. Further details are included at Appendix B. The amount is not material for our opinion.</p> <p>The Council has a programme of asset revaluations to support the value for property, plant and equipment included in the financial statements. The valuation for Faversham Swimming Pool at 31 March 2019 included an adjustment reducing the asset's value following the assignment of a lease. We concluded that it was more appropriate for the valuation to exclude this adjustment. The impact was to increase the valuation by £4,155,000. The accounts have been amended. Further details are included at Appendix B.</p> <p>Subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion.</p> <p>We concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our report for 2018/19 does not include any recommendations for management. Our follow-up of prior year recommendations is at Appendix A.</p> <p>As in previous years, the standard of your draft financial statements was very high. Our work identified only a small number of issues. The working papers produced by the finance team to support the accounts were also of a very high standard.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Swale Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

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## Value for Money arrangements

**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').**

We have completed our risk-based review of the Council's value for money arrangements. We concluded that Swale Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion as detailed in Appendix D. Our findings are summarised on pages 13 to 16.

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based. In particular it included:

- An evaluation of the Council's control environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan as communicated to you in February 2019.

## Conclusion

We have substantially completed our audit of your financial statements. Subject to the completion of outstanding work we anticipate issuing an unqualified audit opinion.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our materiality remains the same as reported in our audit plan. We detail in the table below our determination of materiality for the Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,704,000	This has been calculated based upon 2% of your gross expenditure (Cost of Services) in the draft accounts.
Performance materiality	1,278,000	This has been calculated as 75% of materiality for the financial statements, based upon our assessment of the likelihood of a material misstatement. Performance materiality is used in audit testing and helps address the risk that there may be multiple errors which are individually below materiality but aggregate to a material amount.
Trivial matters	85,000	This has been calculated based upon 5% of your headline materiality.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Swale Borough Council.

2

### Management override of controls

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

### Auditor commentary

Our audit work included;

- gaining an understanding of the accounting estimates, judgements applied and decisions made by management, and considering their reasonableness
- obtaining a full listing of journal entries, and identifying and testing unusual journal entries for appropriateness
- evaluating the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of land and buildings

#### Auditor commentary

Our audit work included;

- reviewing management's processes and assumptions for the calculation of the estimate, the instructions issued to the Council's external valuer and the scope of their work
- considering the competence, expertise and objectivity of the external valuer as management's expert
- testing that revaluations made during the year were input correctly into the Council's asset register
- evaluating the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management satisfied themselves that these are not materially different to current value.
- considering any valuation issues associated with the STC redevelopment scheme.

The valuation for Faversham Swimming Pool at 31 March 2019 included an adjustment following the assignment of a lease. We concluded that it was more appropriate for the valuation of the asset to exclude this adjustment. The impact was to increase the value of the asset by £4,155,000. The accounts have been amended. Further details are included at Appendix B.

Our audit work did not identify any other issues in respect of the valuation of land and buildings.

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### Valuation of pension fund net liability

#### Auditor commentary

Our audit work included;

- identifying the controls put in place by management to ensure that the pension fund liability is not materially misstated.
- assessing the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation.
- assessing the accuracy and completeness of the information provided to the actuary
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made
- checking the consistency of the pension fund asset and liability disclosures in the notes to the financial statements with the actuarial report from your actuary.

In December 2018 the Court of Appeal ruled that transitional protections in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement.

Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Management requested an estimate from the Council's actuary of the potential impact of the ruling. The Council's actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31 March 2019 by £1,000,000. We have reviewed the analysis performed by the actuary and consider that the approach

## Significant findings – audit risks

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### Risks identified in our Audit Plan

### Commentary

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#### Valuation of pension fund net liability

taken to arrive at this estimate is reasonable. Management have concluded that the potential impact of the ruling is not material for the 2018/19 financial statements and will be considered for future years' actuarial valuations. Therefore no amendment has been made to the accounts..

As the accounts have not been adjusted we have included details of this amount at Appendix B. However, the amount is not material for our opinion.

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# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																									
<b>Net pension liability – £57.4m</b>	<p>The Council's net pension liability at 31 March 2019 is £57,367,000 (PY £62,713,000). The Council is a member of the LGPS as operated through the Kent Pension Fund. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities under the scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £5,345,000 net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> <li>We assessed your actuary, Barnett Waddingham, to be competent, capable and objective.</li> <li>We have used the work and report of a consulting actuary (as an auditor's expert) to consider whether your actuary's method of calculating the estimate, including the roll forward approach, is reasonable.</li> <li>We carried out analytical procedures to conclude on whether the Council's share of the LGPS pension assets and liabilities was reasonable.</li> <li>We concluded that the information used by the actuary was complete and accurate.</li> <li>The auditors' expert has assessed the assumptions made by your actuary and identified indicative ranges for assumptions. There were no issues arising.</li> </ul>	●																								
<table border="1"> <thead> <tr> <th data-bbox="733 588 1160 716">Assumption</th> <th data-bbox="1160 588 1342 716">Actuary value used for Swale BC</th> <th data-bbox="1342 588 1595 716">Expected range per the auditor's expert</th> <th data-bbox="1595 588 1810 716">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="733 716 1160 768">Discount rate</td> <td data-bbox="1160 716 1342 768">2.40%</td> <td data-bbox="1342 716 1595 768">2.35 – 2.45%</td> <td data-bbox="1595 716 1810 768">●</td> </tr> <tr> <td data-bbox="733 768 1160 845">Pension increase rate</td> <td data-bbox="1160 768 1342 845">2.40</td> <td data-bbox="1342 768 1595 845">2.45 -2.40%</td> <td data-bbox="1595 768 1810 845">●</td> </tr> <tr> <td data-bbox="733 845 1160 919">Salary growth</td> <td data-bbox="1160 845 1342 919">3.90</td> <td data-bbox="1342 845 1595 919">CPI (2.35% - 2.45%) + 1.50%</td> <td data-bbox="1595 845 1810 919">●</td> </tr> <tr> <td data-bbox="733 919 1160 1025">Life expectancy – Males currently aged 45 aged 65</td> <td data-bbox="1160 919 1342 1025">22.0 23.7</td> <td data-bbox="1342 919 1595 1025">22.2-25.0 20.6-23.4</td> <td data-bbox="1595 919 1810 1025">●</td> </tr> <tr> <td data-bbox="733 1025 1160 1125">Life expectancy – Females currently aged 45 Aged 65</td> <td data-bbox="1160 1025 1342 1125">24.0 25.8</td> <td data-bbox="1342 1025 1595 1125">23.2-24.8 25.0-26.6</td> <td data-bbox="1595 1025 1810 1125">●</td> </tr> </tbody> </table>				Assumption	Actuary value used for Swale BC	Expected range per the auditor's expert	Assessment	Discount rate	2.40%	2.35 – 2.45%	●	Pension increase rate	2.40	2.45 -2.40%	●	Salary growth	3.90	CPI (2.35% - 2.45%) + 1.50%	●	Life expectancy – Males currently aged 45 aged 65	22.0 23.7	22.2-25.0 20.6-23.4	●	Life expectancy – Females currently aged 45 Aged 65	24.0 25.8	23.2-24.8 25.0-26.6	●
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<ul style="list-style-type: none"> <li>We concluded that there was appropriate disclosure of the estimate in the financial statements.</li> </ul>																											

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570). Public sector bodies are assumed to be going concerns where the continued provision of a service in the future is anticipated.

## Going concern commentary

### Management’s assessment process

Management’s assessment process is based on your financial planning framework. You have a detailed four year Medium Term Financial Plan (MTFP).

### Auditor commentary

- you have a history of achieving financial savings plans and delivering services within budget
- you have a comprehensive medium term planning framework. The MTFP is updated annually and integrated with your annual budget processes
- management has concluded that it is appropriate to use the going concern basis of accounting.

### Work performed

Detailed audit work performed on management’s assessment

### Auditor commentary

- you have delivered a revenue budget surplus of £931,000 for 2018/19
- you have set a balanced budget for 2019/20
- you had total usable (cash-backed) reserves of £23,883,000 at 31.3.19.

### Concluding comments

### Auditor commentary

- we concluded that management’s continued use of the going concern concept to prepare the financial statements remains appropriate. We did not identify any material uncertainty about your ability to continue as a going concern

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations.</li> <li>We have not identified any other incidences of non-compliance with relevant laws and regulations from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from you.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We seek external confirmations from the relevant banks and financial institutions to support our review of your cash and investment balances.</li> <li>We received positive confirmation for all balances. There are no issues to report to you.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information requested from management was provided.</li> <li>We did not encounter any significant difficulties during our audit.</li> </ul>

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated..</li> <li>We did not identify any inconsistencies.</li> </ul>
② <b>Matters on which we report by exception</b>	<p>We are required to report on matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</li> <li>Detailed work is not required as the Council does not exceed the threshold specified by NAO.</li> </ul>
④ <b>Certification of the closure of the audit</b>	<ul style="list-style-type: none"> <li>We intend to certify the closure of the 2018/19 audit in the audit opinion, as detailed in Appendix D.</li> </ul>

# Value for Money

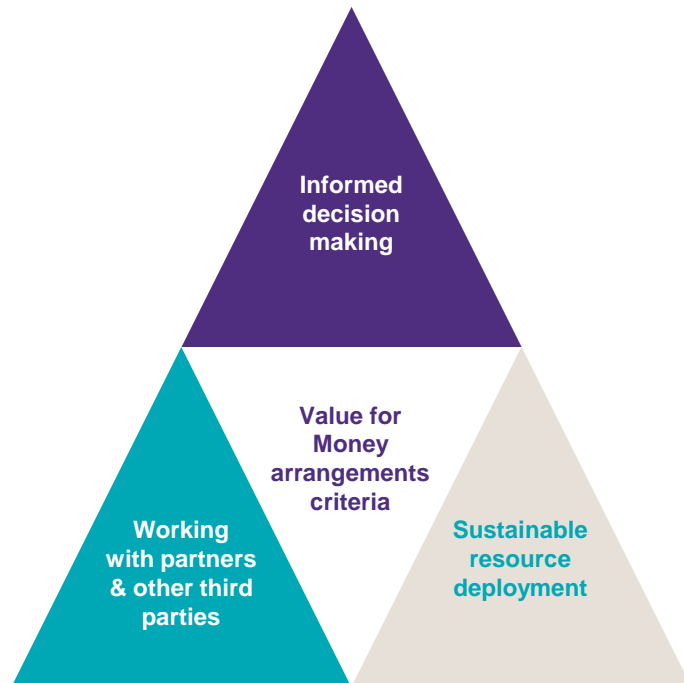
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment to identify significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We identified two significant risks and communicated these to you in our Audit Plan dated February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

# Value for Money

## **Our work**

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the two significant risks that we identified in your arrangements. In arriving at our conclusions, our main considerations were:

### **Financial sustainability**

- Your financial performance in 2018/19, including the underspend against revenue budget
- The level of revenue reserves available to address risks and support future spending plans.
- Your strong financial planning framework based on a 4 year medium term financial plan (MTFP).

### **Brexit**

- The development of multi-agency contingency plans led by the Kent Resilience Forum.
- Your local arrangements based on the Community Impact Assessment and management's Brexit Action Plan.

## **Overall conclusion**

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

## **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and any further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>You continue to face significant financial pressures associated with reductions in government funding.</p>	<p>You have a history of sound financial management. In recent years you have been proactive in responding to the implications of sustained reductions in government funding, both by making financial savings and developing alternative sources of income. You have also achieved regular annual underspends against revenue budget, including an underspend of £931,000 for 2018/19.</p>	<p><b>Auditor view</b></p> <p><b>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</b></p>
<p>The continued strength of your financial planning framework is key to maintaining a sustainable financial position whilst delivering your key objectives over the medium term.</p>	<p>You are aware that there are significant uncertainties going forward. Historically you have benefited from significant growth in business rates income, including from your membership of the Kent business rates pilot in 2018/19, but the future framework for the localisation of business rates is unclear. There are also uncertainties over the impact on local authorities of the Fair Funding review. The level of income you receive from New Homes Bonus funding is reducing and the scope for further internal savings may be limited. You also have continuing cost pressures in a number of service areas. You have made a contribution of £361,000 from reserves to support the 2019/20 budget.</p>	
<p>We will update our understanding of your medium term financial plan and review the supporting information trails.</p>	<p>Allowing for these uncertainties you continue to have a robust financial planning framework. The Medium Term Financial Plan is updated annually and closely aligned with the budget-setting process. A review of supporting trails shows that it is based on a comprehensive consideration of the relevant income and expenditure streams. You have made contributions to reserves, including the business rates volatility reserve, to help deal with future uncertainty.</p>	
	<p>Going forward you will need to actively manage these financial pressures to support the continued delivery of services and your strategic objectives as a Council. However, you have a credible planning framework to support continuing to set balanced budgets into the medium term.</p>	

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and any further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>The government is in continuing negotiations with the EU over Brexit, and there is uncertainty over the future impact for public services and the wider economy.</p> <p>We will consider the action taken by the Council, including any wider preparations across local authorities in Kent, to mitigate any risks around Brexit.</p>	<p>At the time of our Audit Plan the anticipated date of leaving the European Union was 29 March 2019. The anticipated date of leaving is now 31 October 2019.</p> <p>For risk assessment purposes you and other authorities locally are focused on the risks associated with a “Day one” No Deal Brexit, and the need to continue delivering services to residents with minimal disruption. Many of these risks are being addressed at a Kent-wide level through the Kent Resilience Forum (KRF). The KRF produced a Threat and Risk Assessment during 2018/19, and this risk assessment continues to be updated. Currently the most significant risks relate to cross-channel disruption and transport issues, and for these a number of multi-agency contingency plans are in place, e.g. Operations Fennel, Brock and Perch, which continue to be refined in co-ordination with government departments. You received an update on the current preparations by KRF in a presentation to informal Cabinet in June 2019.</p> <p>As a participant Swale has access to the planning resources of the KRF, and you were receiving regular briefings in the run-up to 29 March 2019. To support the KRF risk assessment process during 2018/19 you have also completed a local Community Impact Assessment, supported by a Brexit Action Plan. This plan is currently being updated in preparation for the new departure date at the end of October.</p>	<p><b>Auditor view</b></p> <p><b>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</b></p>



# Independence and ethics

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following non-audit services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Subsidy claim (from 2018/19)	10,000	Self-Interest (because this is a recurring fee from 2018/19).	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £46,769 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.
<b>Non-audit related</b>			
None			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issues in our audit of the Council's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. [We are pleased to report that management has implemented the recommendation.]

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1 ✓</p>	<ul style="list-style-type: none"> <li>The Council does not have records of original floor and land area measurements to support asset valuations. It should maintain up to date measurements of building and land areas for assets valued on a DRC basis and provide this information to the external valuer in future years. The information should also be used to review the outcomes of the work by the external valuer.</li> </ul>	<ul style="list-style-type: none"> <li>Your external valuer has provided measurements as part of the work on asset valuations to support the 2018/19 financial statements. There was evidence that the measurements provided by the external valuer were subject to review and challenge by management.</li> </ul>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
	£000	£000	£000
1 Faversham Swimming Pool: Removal of impairment adjustment.(NB: There are associated movements on the CIES but only balance sheet movements have been shown for clarity).			
Dr: Property Plant and Equipment		4,155	
Cr: Revaluation Reserve		(2,008)	
Cr: Capital Adjustment Account		(2,147)	
<b>Overall impact</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Detail	Auditor recommendations	Adjusted?
Disclosure	Note 45: Total for Coat of Services (column "Net Expenditure Accounting Basis") differs from CIES.	<ul style="list-style-type: none"> <li>Recommend that the total for Cost of Services (column "Net Expenditure Accounting Basis") at Note 45 is increased by £173,000 to demonstrate consistency with CIES.</li> </ul>	✓
Disclosure	We agreed a number of other minor amendments to disclosure notes.	<ul style="list-style-type: none"> <li>Management agreed to action the amendments on the final version of the financial statements .</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
	£000	£000	£000	
1 Estimated pension liabilities arising from McCloud judgement not included in accounts	1,000	(1,000)	1,000	Management have concluded that the estimated liabilities are not material.
<b>Overall impact</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Council Audit	46,769	TBC
<b>Total audit fees (excluding VAT)</b>	<b>46,769</b>	<b>TBC</b>

The fees reconcile to the financial statements:

£000

47 Council audit fee

24 2017/18 certification fee

71 Total fee per financial statements (Note 50)

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report.**

## Independent auditor's report to the members of Swale Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Swale Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Explanatory Note to the Accounts: Expenditure and Funding Analysis, the Notes to the Core Financial Statements, and the notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going

concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report 2018/19, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Financial Report 2018/19 for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 23, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly

# Audit opinion

informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Swale Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Signature

Iain Murray  
for and on behalf of Grant Thornton UK LLP, Local Auditor

110 Bishopsgate  
London  
EC2N 4AY

XX July 2019





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