



The Annual Audit Letter for Swale Borough Council

Year ended 31 March 2019

October 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 29 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,704,000 which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Respective responsibilities

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

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

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

Working with the Council

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

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,704,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

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

The scope of our audit

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

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

We also read the other information published with the financial statements (including the Annual Governance Statement and the Narrative Report) to check that this is consistent with our understanding of the Council

and with the financial statements on which we give our opinion.

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

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Council regularly revalues its land and building assets. The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate, including review of the instructions issued to the Council's external valuer;• considered the competence, expertise and objectivity of the external valuer;• reviewed the external valuer's approach and assumptions; and• tested that revaluations were correctly entered into the Council's accounting records.	<p>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 were amended.</p> <p>Our audit work did not identify any other issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated; • evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • performed work to confirm the reasonableness of the assumptions made by the actuary; • checked that the information on pensions included in the financial statements was consistent with the actuary's report; and • obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council. 	<p>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. This ruling had implications for other pension schemes, including the LGPS. 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.</p> <p>The Council's actuary estimated that the impact of the ruling was to increase the Council's overall pension liabilities at 31 March 2019 by £1,000,000. Management concluded that this was not material for the 2018/19 accounts and therefore no amendment was made to the financial statements. The issue will be considered for future years' actuarial valuations.</p> <p>We concluded that the issue was not material for our opinion.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29 July 2019. These included the key findings arising from our work on significant risks. We did not identify any other errors which required an adjustment to the Council's primary financial statements.

The Council's accounts were again prepared to a high standard and supported by very strong working paper trails.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the Council's financial statements.

Whole of Government Accounts (WGA)

We carried out work in accordance with instructions issued by the NAO. We issued an assurance statement confirming that a review of the Council's data collection tool was not required as the values in the financial statements were below the specified threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The Council continues to face significant financial pressures associated with reductions in government funding.</p> <p>A strong financial planning framework is key to the Council maintaining a sustainable financial position and delivering its key objectives.</p> <p>We reviewed the Council's medium term financial plan and the supporting information trails.</p>	<p>The Council has a history of sound financial management. In recent years it has been proactive in responding to the implications of sustained reductions in government funding, both by making financial savings and developing alternative sources of income. It has also achieved regular annual underspends against revenue budget, including an underspend of £931,000 for 2018/19.</p> <p>The Council is aware that there are significant uncertainties going forward. Historically it has benefited from significant growth in business rates income, including from 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 the Council receives from New Homes Bonus funding is reducing and the scope for further internal savings may be limited. It also has continuing cost pressures in a number of service areas. The Council made a contribution of £361,000 from reserves to support the 2019/20 budget.</p> <p>Allowing for these uncertainties the Council continues 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. The Council has made contributions to reserves, including the business rates volatility reserve, to help deal with future uncertainty.</p> <p>Going forward the Council will need to actively manage these financial pressures to support the continued delivery of services and its strategic objectives. However, it has a credible planning framework to support continuing to set balanced budgets into the medium term.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 considered the action taken by the Council, including the 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 the Council 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. The Council 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 the Council was receiving regular briefings in the run-up to 29 March 2019. To support the KRF risk assessment process during 2018/19 the Council has 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>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	October 2019

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit	46,769	51,169	60,739
Total fees	46,769	51,169	60,739

Audit fee variation

As outlined in our audit plan, the planned fee of £46,769 for 2018/19, which is the scale fee published by Public Sector Audit Appointments (PSAA), was based on the assumption that the scope of our audit did not significantly change. However, for 2018/19 there are a number of areas where we have been required to perform additional work over and above that originally envisaged in our audit plan. These are set out in the following table. The proposed fee variation is subject to approval by PSAA.

Area	Reason	Fee proposed £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling in June 2019. As part of our audit we have been required to review the basis of the revised actuarial assessment and the impact on the financial statements, and address any audit reporting considerations.	1,600
Pensions – IAS 19	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year in response to these findings.	1,200
PPE Valuation – work of experts	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings.	1,600
Total		4,400

A. Reports issued and fees (continued)

Fees for non-audit services

	Planned £	Actual fees £	2017/18 fees £
Audit related services	10,000	TBC	23,626
- Certification of Housing Benefit Subsidy claim (from 2018/19)			
Non-Audit related services			
- None			
Total fees for non-audit services	10,000	TBC	23,626

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.



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