



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.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Accounting Estimates	20
Accounting Estimates - General Enquiries of Management	21
Appendix A – Accounting Estimates	24

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"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <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 & 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"> the nature of the relationship between these related parties and Swale Borough Council whether Swale Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<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"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	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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