

The Audit Findings for Swale Borough Council

Year ended 31 March 2022

Swale Borough Council
31 March 2022



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This Audit Findings 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. Its contents will be discussed with management and the Audit Committee.

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. 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 2022 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Council and their income and expenditure for the year ending 31 March 2022; and
- 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken remotely during September -November. Our findings are summarised on pages 5 to 15. We have identified disclosure and wording adjustments to the financial statements only, resulting in a £nil adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are included in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- completion of our outstanding testing in the following areas: Property, Plant and Equipment, Investment Properties, Housing benefit expenditure and Grant income.
- quality review by senior auditors of completed work.
- receipt of management representation letter.
- review of the final set of financial statements.

We have 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.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our planning assessment, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. At the planning stage we did not identify any significant risks and based on our current understanding this remains the case.

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 upon the completion of our work on the Council's VFM arrangement, which will be reported in our 2021-22 Auditor's Annual Report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 will be discussed with management and the Audit Committee.

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, and in particular included:

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by 30 November 2022. These outstanding items include:

- completion of our outstanding testing in the following areas: Property, Plant and Equipment, Investment Properties, Housing benefit expenditure and Grant income.
- Quality review of completed work.
- Receipt of management representation letter; and
- Review of the final set of financial statements.

Acknowledgements

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

2. Financial Statements



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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Swale Borough Council.

Description	Planning	Revised
Gross Expenditure	80,131,000	79,904,000
Overall Materiality	1,560,000	1,550,000
Performance Materiality	1,170,000	1,162,500
Trivial Matter	78,000	77,500

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	1,550,000	This has been calculated based on 1.95% of your gross expenditure (cost of services) in the draft accounts.
Performance materiality	1,162,500	This has been calculated as 75% of materiality for the financial statements, based on our assessment of the likelihood of a material misstatement.
Trivial matters	77,500	This has been calculated as 5% of headline materiality.



2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions

Having considered the risk factors set out in ISA 240 and the nature of the Council's revenue streams, 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 that of Swale Borough Council, mean that all forms of fraud are seen as unacceptable.

Whilst we did not consider there to be a risk of fraud in revenue recognition, we have tested all material income streams for accuracy and occurrence. Our testing has not raised any issues to bring to your attention.

Management override of controls

We have:

- Evaluated the design effectiveness of management controls over journals.
- Analysed the journals listing and determine the criteria for selecting high risk unusual journals.
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.
- Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
- Analysed the journals posted by super users as part of journal control environment.

From the work performed, there were no items arising in respect to this risk which requires reporting to the Audit Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (including Investment Properties)

The Council carries out a rolling programme of valuations that ensures all land and buildings required to be measured at current value is revalued at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

The Council also holds investment properties valued at fair value as at 31 March 2022. The valuation approach for investment properties is not affected by the consultation and therefore regardless of the outcome of the consultation, special audit consideration will be given to this account.

Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.

We therefore identified valuation of land and buildings and investment properties, particularly focused on the valuers' key assumptions and inputs to the valuations, as a significant risk, which was one of the most significant assessed risks of material misstatement.

During our audit procedures, we have:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuer and the scope of their work.
- Evaluated the competence, capabilities and objectivity of the valuation report.
- Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the valuer's report and the assumptions that underpin the valuations.
- Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.
- Assessed the value of a sample of assets in relation to market rates for comparable properties.

Our audit work is still in progress but has not identified any issues in this area to date.

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's net defined benefit liability represents a significant estimate in the financial statements. The estimate is complex given the large number of scheme members and the sensitivity of the estimate to key assumptions. We focused the significant risk to assumptions used by the actuary.

For the significant risk, we have:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their new management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We have also:

- Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.
- Obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

From the work performed, there are no issues arising from our work in respect of this risk which require reporting to the Audit Committee.

Error in expenditure recognition

We considered and rebutted the presumption of a fraud risk in expenditure recognition.

However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.

Audit procedures undertaken included:

- Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period.
- Inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items.
- Investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

From the work performed, there are no issues arising from our work in respect of this risk which require reporting to the Audit Committee.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings (£73m) and Investment Properties – (£4m) valuation	<p>The Council's accounting policy for non-current assets is at Note 2n. The policy covers accounting and valuation issues. The policies for heritage and investment assets are 2h and 2j respectively.</p> <p>Management have asked the valuer to consider the year end value of non-revalued properties and the potential valuation change in the assets revalued as at 01 January 2022 movement to 31 March 2022, applying industry average indices and to determine whether there has been a material change in the total value of these properties. The valuer's assessment of assets not revalued has identified no material change to the property's value.</p>	<p>Through the substantive audit work performed we have arrived at the conclusion that the Council's Land and buildings and Investment properties as at 31 March 2022 are not materially misstated based on the following outcomes:</p> <p>We have:</p> <ul style="list-style-type: none"> • reviewed the Land and Buildings and Investment Properties valuation estimate in line with the revised ISA540 requirements and have no issues to raise; • assessed management's valuation expert and found them to be competent, capable and independent; • concluded that the underlying information used to determine the estimate is complete and accurate; • assessed valuer assumptions to be reasonable; • assessed and considered the accounting policies adopted to be appropriate; • assessed assets not revalued at year end totalling £13.2m using benchmark tools and concluded that these are not materially different to current value at year end. 	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £62.6m	<p>The Council's net pension liability at 31 March 2022 is £62.6m (PY £66.6m) comprising the Kent County Council Local Government Pension Scheme. The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We considered the following areas;</p> <ul style="list-style-type: none"> We assessed your actuary, Barnett Waddingham, to be competent, capable and objective. We used PwC as auditors' expert to assess the reasonableness of the actuary's assumptions as shown in the following table: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.60%</td> <td>2.55% -2.60%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.20%</td> <td>3.05%- 3.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.20%</td> <td>0.5% – 2.5% above CPI inflation (3.10%-5.1%)</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.6</td> <td>20.5 - 23.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>23.7</td> <td>23.4 - 25.0</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We assessed the completeness and accuracy of the underlying information used to determine the estimate and checked the reasonableness of the Council's share of LPS pension assets. We consider the disclosure of estimate in the financial statements to be adequate. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.60%	2.55% -2.60%	●	Pension increase rate	3.20%	3.05%- 3.45%	●	Salary growth	4.20%	0.5% – 2.5% above CPI inflation (3.10%-5.1%)	●	Life expectancy – Males currently aged 45 / 65	21.6	20.5 - 23.1	●	Life expectancy – Females currently aged 45 / 65	23.7	23.4 - 25.0	●	Light Purple
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.60%	2.55% -2.60%	●																								
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Life expectancy – Females currently aged 45 / 65	23.7	23.4 - 25.0	●																								

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted and requests sent. We have received direct confirmation for all balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is due within 3 months of this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. <p>We have nothing to report on these matters</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>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.</p> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Swale Borough Council in the audit report, as detailed in Appendix E, due to incomplete VFM work.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2021/22

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and action plan

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E to this report. We expect to issue our Auditor's Annual Report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from our initial procedures.

4. 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.

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 Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing benefit subsidy	18,400	Self-Interest because this is a recurring fee Self review because GT provides audit services	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 £18,400 which is immaterial in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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

Details of fees charged are shown in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Swale Borough Council's 2020/21 financial statements, which resulted in one recommendations being reported in our 2020/21 Audit Findings report.

We are pleased to report that management have implemented our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Accrued annual leave figure has been agreed to be recalculated every 4 years. The last calculation was performed in 16/17. Movement in figure is estimated to have been £22k which is trivial and so no adjustment has been made however the figure will be out of date next year.	<p>Management response received in current year; Full calculation performed in 21/22</p> <p>Auditor assessment of management response; We are satisfied that management has actioned the recommendations raised in the prior year. No issues of this nature identified in 2021/22.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. 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

There were no audit identified adjusted misstatements in the financial statements

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.

Disclosure errors	Auditor recommendations	Adjusted?
<p>Narrative Report</p> <p>The financial statements and other information should be stand alone and all required disclosures should be included. The narrative report should include a commentary on the Council's performance. The Council addressed this by including a hyperlink to information held on its website. A summary of Key Performance Indicators to help to focus on key priorities and those aspect that need to be monitored more closely was omitted .</p>	<p>The narrative report should include a commentary on Council service performance. Disclosures should be updated in the manner that has been communicated by the audit team.</p> <p>Management response</p> <p>The council publishes performance data on a monthly basis and the link to that is included in the statement. The drive to declutter the statement of accounts is enhanced by signposting the readers to the most appropriate source of data which in this case is the monthly performance data. No changes to be made.</p>	No
<p>Accounting Policy</p> <p>We noted the following policies were omitted;</p> <ul style="list-style-type: none"> • Council tax and National Non-Domestic (Business) rates • Overheads • Prior period adjustments • Operating and Finance leases • Principal and agent transactions 	<p>Disclosures should be updated in the manner that has been communicated by the audit team.</p> <p>Management response</p> <p>Accounts updated to include the policies identified, excluding the principal and agent transaction that is fully referenced in the relevant notes to which the position applies.</p>	Yes. However management has disclosed Principal and agent transactions in Note 47 instead. We have reviewed this and we are satisfied of the coverage.
<p>Note 4 – Accounting Estimate</p> <p>This disclosure should focus on items where there is a significant risk of a material adjustment to the carrying amount of the assets and liabilities within the next financial year. The note is required to disclose information about the nature of the assumptions and the sources of uncertainty and the sensitivity of carrying amounts to assumptions and estimates and the range of possible outcomes should be quantified to help users understand the effect of estimates.</p>	<p>The Council should consider if all of its disclosures meet the requirement, for example, impairment of debt disclosure.</p> <p>Sensitivity analysis is not included in the note 4 disclosure against every material estimate disclosed.</p> <p>Management response</p> <p>Sensitivity analysis is included in relevant notes where it is appropriate.</p>	No.

B. 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.

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.

Disclosure errors	Auditor recommendations	Adjusted?
<p>Financial Instruments</p> <p>From our review of Financial Instrument, we noted the classification of Financial liabilities were omitted.</p>	<p>Disclosures should be updated in the manner that has been communicated by the audit team.</p> <p>Management response</p> <p>The wording Amortised Cost has been added to the table for financial liabilities</p>	Yes
<p>Note 46 –Collection Fund</p> <p>From our review of Precepts, demands and shares, we noted that Swale Borough Council (£4,554k), Kent County Council (£506k) and Kent & Medway Fire Rescue Service (£20,242k) balance for the year were incorrect as these balance were transposed.</p>	<p>Disclosures should be updated in the manner that has been communicated by the audit team.</p> <p>Management response</p> <p>Disclosure updated for precept amounts</p>	Yes
<p>Typographical errors, and omitted updating of disclosures in the financial statements</p> <p>We have identified a number typographical error in the financial statements which were communicated to the management. We have also noted a number disclosures that narratives which needs to be amended</p>	<p>Disclosures should be updated in the manner that has been communicated by the audit team.</p> <p>Management response</p> <p>Amendments made where appropriate.</p>	Yes

C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£71,269	TBC
Total audit fees (excluding VAT)	£71,269	TBC

The audit fee disclosure in the accounts has been reconciled to the above.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services: Certification of Housing Benefit Subsidy Claim	£18,400	TBC
Total non-audit fees (excluding VAT)	£18,400	TBC

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Swale Borough Council (the 'Authority') for the year ended 31 March 2022, 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 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

D. Audit opinion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report. 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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 matters 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, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

D. Audit opinion

- 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 Director of Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, 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 Director of Resources. The Director of Resources 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Resources 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 Director of Resources 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. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

D. Audit opinion

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraudulent expenditure recognition. We determined that the principal risks were in relation to journal entries which met a range of criteria defined as part of our risk assessment.
- Our audit procedures involved:
 - Evaluation of the design effectiveness of controls that the Director of Resources has in place to prevent and detect fraud;
 - Journal entry testing, with a focus on journals meeting a range of criteria defined as part of our risk assessment;
 - Challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties, and pension fund net liability valuations; and
 - Assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuations of land and buildings, investment properties, and pension fund net liability.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

D. Audit opinion

- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority’s control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

D. Audit opinion

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Swale Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

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

Darren J Wells, Key Audit Partner

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

London

Date: xx November 2022

E. Audit letter in respect of delayed VFM work

Dear Councillor Derek Carnell,

The original expectation under the approach to VFM arrangements works set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangement for local government by 30 September each year at the least. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delays.

Yours faithfully

Darren J Wells
Key Audit Partner



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