



# Swale Borough Council audit plan

Year ending 31 March 2023

April 2023



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# Key matters



## National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

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# Key matters

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## Council Developments

As for many councils, the financial outlook is challenging and uncertain in the medium term. The funding gap was at £1.6m over the period 2022/23. By March 2023, a detailed budget review had taken place to identify efficiencies and additional income to help support frontline services and to balance the Council's financial position. Based on current forecasts this still leaves a deficit of £2.0m for 2023/24 which will need to be supported from reserves. Based on the projections and the spending estimates and use of reserves in the current year, the reserves are forecast to be fully depleted by 2025/26. The Council therefore needs to prioritise exploring ways to increase the deliverability of a savings plan in order to protect the delivery of future services and its reserves.

Waste management currently represents a significant pressure. A contract extension has been agreed due to the lead in times for the new waste vehicles which will take the current contract through to the end of March 2024. The estimated additional cost of this due to the impact of inflation and the extension itself is in the region of £1.8m.

The Council declared a climate and ecological Emergency in June 2019, and has committed to make Council operations carbon neutral by 2025 and across the borough by 2030. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to flesh these plans out with what investment and changes to operations may be required to make such targets a reality in the medium to long term. This is also increasingly becoming an area of concern for Audit/Risk Committees in terms of how they oversee this risk, and auditors nationally are considering the impact on financial reporting and Value for Money of these plans.

In March 2023, the Council invited the Local Government Association to carry out a peer review.

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# Key matters

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## Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, are set out further in our indicative Audit Plan.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money (VFM) work.
- Our VFM work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

# Introduction and headlines

## Purpose

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

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

## Scope of our audit

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

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

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

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



# Introduction and headlines

## Significant risks

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

- The risk that the valuation of Land and buildings and investment properties in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- Risk of fraud in revenue recognition (rebutted).

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

## Materiality

We have determined planning materiality to be £1.56m (PY £1.56m) for the Council, which equates to 1.95% of your prior year Cost of Service expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £78k (PY £78k). We will update this on receipt of the draft statement of accounts for audit. We design our procedures to detect errors in specific accounts at a lower level of precision, therefore we have determined lower materiality for cash and cash equivalents at £500k and Officers' Remuneration and Termination Benefits Disclosure at £50k respectively.

## Value for Money (VFM) arrangements

At the time of writing, our risk assessment regarding your arrangements to secure VFM is ongoing. We have not identified any risks of significant weaknesses in your arrangements at this stage. We will report any changes to our risk assessment to the Committee.

## Audit logistics

Our planning visit will take place in March 2023 and our final visit will take place in October – December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £72,620 (PY: £73,269) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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

# Significant risks identified

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

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



# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	<p>You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year. The valuation of these assets 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. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations.</p> <p>For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• Evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;</li> <li>• Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value;</li> <li>• Test revaluations made during the year to see if they are input correctly into the Authority's asset register;</li> <li>• Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and</li> <li>• For all assets not formally revalued, evaluate the judgement made by management or others in determination of current value of these assets.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation. We will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.</li> <li>• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases.</li> <li>• Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.</li> <li>• Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• Obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Other risk identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Error in expenditure recognition	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period, but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p> <p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition</li> <li>• opportunities to manipulate expenditure recognition are limited</li> <li>• the culture and ethical frameworks of local authorities, including Swale Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> <li>• Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period.</li> <li>• Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items.</li> <li>• Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# 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.

Matter	Description	Planned audit procedures
1	<p><b>Determination</b></p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.56m which equates to 1.95% of your gross expenditure for the prior period.</p>	<p>We determine planning materiality to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– determine sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> <li>– We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £50,000</li> <li>– We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £500,000</li> </ul>

# Our approach to materiality

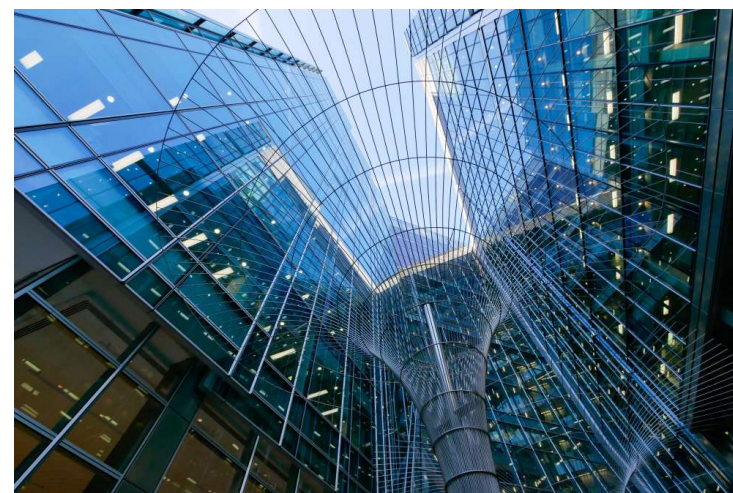
The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	<p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p><b>Other communications relating to materiality we will report to the Audit Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £78k (PY £78k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

# 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.

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	1,560,000	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.56m which equates to 1.95% of your gross expenditure for the prior period.
Materiality for specific transactions, balances or disclosures - Senior Officer Remuneration	50,000	We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £50,000.
Materiality for specific transactions, balances or disclosures - Cash and Cash Equivalents	500,000	We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £500,000.



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 19.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	General Ledger	<ul style="list-style-type: none"> <li>• ITGC assessment (design effectiveness only) for Council-hosted controls               <ul style="list-style-type: none"> <li>• Understanding IT general controls</li> <li>• IT environment</li> <li>• IT general controls segregation of duties analysis</li> <li>• Cyber Security workplan</li> </ul> </li> </ul>

We have not identified significant changes during the period affecting the IT controls of the Council and therefore no additional audit procedures will be completed.



# Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office –issued its latest Value for Money guidance –to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body’s arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



## Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor’s annual report.

# Audit logistics and team

Planning and  
risk assessment

Audit  
committee  
April 2023  
Audit Plan

Year end audit  
October - December

Audit  
committee  
TBC  
Audit Findings  
Report  
Audit Opinion

Audit  
committee  
TBC  
Auditor's  
Annual  
Report

## Darren Wells, Key Audit Partner



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

## Richmond N Nyarko, Audit Manager



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

## Asad Khan, Audit Assistant Manager



Asad will lead the onsite team and will be the day-to-day contact for the audit. He will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

## Audited body responsibilities

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

## Our requirements

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

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

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018, PSAA awarded a contract of audit for Swale Borough Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Resources].

# Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Swale Borough Council Audit	71,269	73,269	£72,620

## Assumptions

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

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

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

	Actual Fee 2021/22	Proposed fee 2022/23
Scale fee published by PSAA	£46,769	£54,270
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£7,500	£0
Audit fee 2019/20	£54,269	£54,270
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£9,000	£9,000
Increased audit requirements of revised ISAs	£6,500	£6,350
<i>Proposed increase to agreed 2019/20 fee</i>	£15,500	£15,350
<i>New issues for 2021/22</i>		
Cost reflecting remote working outside SBC	£5,000	£0
IFRS 16 Disclosure work	(1,500)	0
<i>New issues for 2022/23</i>		
Introduction of ISA 315	£0	£3,000
<b>Total audit fees (excluding VAT)</b>	<b>£73,269</b>	<b>£72,620</b>

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

## Other services

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

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit (Subsidy) Assurance Process	27,600	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,600 in comparison to the total fee for the audit of £72,620 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	<b>Respective responsibilities</b>
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud( deliberate manipulation) involving management and/or which results in material misstatement of the financial statements ( not typically council tax fraud)		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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