

# The Audit Findings Report for Swale Borough Council

Year ended 31 March 2023

Final report – November 2023



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This Draft 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 have been discussed with management and the Audit Committee.

Name: Matt Dean

For Grant Thornton UK LLP

Date: 1<sup>st</sup> December 2023

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 2023 for the attention of those charged with governance.

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## Financial Statements

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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 its income and expenditure for the year; 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), and Narrative Report, 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 completed remotely from August to November 2023. Our findings are summarised on pages 6 to 18. We have not identified any adjustments to the Council's reporting financial position in the draft accounts. We have identified disclosure adjustments to the financial statements that are detailed in Appendix C. We have also raised two recommendations for management as a result of our audit work. These are set out in Appendix B.

Our work is complete.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your council and the financial statements we have audited.

Our financial statements audit report opinion was unmodified.

Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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# 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 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 to this report. 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.

## 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 our work under the Code and certified the completion of the audit when we gave our audit opinion on 1 December 2023.

## Significant matters

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

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to enable us to get to the finalisation of the audit.

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## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

We are not aware of any similar ventures that the Council has entered into or planning to enter into, but we will consider any potential risk to this in our VFM work.

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## 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 have been discussed with the management and will be discussed with 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

No changes have been made to the approach set out in the Audit Plan issued in April 2023.

### Conclusion

We have completed our audit of your financial statements. We issued an unqualified audit opinion on 1 December 2023.

## 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 our determination of materiality for Swale Borough Council.

	Planning Amount (£)	Revised Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,550,000	1,520,000	This has been calculated based on 1.95% of your gross expenditure (cost of services) in the draft accounts.
Performance materiality	1,162,500	1,140,000	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	76,000	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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <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 Swale Borough Council.</p>	<p>During the audit, we have undertaken the following work:</p> <ul style="list-style-type: none"> <li>• reviewed and tested the Council’s revenue recognition policies</li> <li>• performed testing on material revenue streams</li> </ul> <p>Our completeness testing, we identified several subsequent invoices raised above the de-minimus level in 2023-24 that relate to 2022-23. Management has not accrued for these balances resulting in an understatement of Income for 2022-23.</p>



## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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.

To address this risk, we:

- 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.

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

#### Valuation of land and buildings and investment properties

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.

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.

To address this risk, we:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation expert;
- 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 and discuss this basis where there are any departures from the Code;
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Assessed how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value;
- Tested revaluations made during the year to see if they are input correctly into the Authority's asset register;
- Evaluated 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
- For all assets not formally revalued, evaluated the judgement made by management or others in determination of current value of these assets.

Our audit work has not identified any issues in respect of Valuation of land and buildings and investment properties.

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Valuation of pension fund net liability

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.

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.

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.

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.

### Commentary


To address this risk, we:

- Updated 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.
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.
- Assessed 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.
- Assessed the accuracy and completeness of the information provided by the Council 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.
- Undertook 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
- 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.

Our work has not identified any significant issues in the valuation of pension fund net liability.

## 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Land and Buildings - £76.4m</b> <b>Investment Properties - £4.1m</b> <b>Heritage Assets - £2.3m</b>	<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 has asked the valuer to consider the year end value of non-revalued properties and the potential valuation change in the assets revalued as 31 March 2023, applying industry average indices and determining 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>We identified a significant audit risk in respect of the valuation of land and buildings. In the course of our work, we have performed an assessment of management's expert, checked the completeness and accuracy of the underlying information used to determine the estimate as well as considering the reasonableness of movements in the valuations and the assumptions used.</p> <p>The adequacy of disclosure of the estimate in the financial statements has also been considered and is deemed reasonable.</p> <p>We have disclosed detailed work performed regarding PPE on page 9.</p>	 <b>Blue</b>

### 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: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<b>Net pension liability – £13.9 million</b>	<p>The Council's net pension liability at 31 March 2023 is <b>£13.9 million</b> (PY <b>£62.6 million</b>) comprising the Kent County Council Local Government Pension Scheme.</p> <p>The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at March 2022. 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"> <li>We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.</li> <li>We have assessed the actuary's approach taken, and detailed work carried out to confirm reasonableness of approach.</li> <li>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</li> </ul> <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>4.80%</td> <td>4.80% to 4.85%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.95%</td> <td>2.65% to 2.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>1% above CPI, hence 3.90%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.1</td> <td>19.5-22.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>23.5</td> <td>22.9-24.5</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.</li> <li>We confirmed adequacy of disclosure of the estimate in the financial statements.</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.80%	4.80% to 4.85%	●	Pension increase rate	2.95%	2.65% to 2.95%	●	Salary growth	3.95%	1% above CPI, hence 3.90%	●	Life expectancy – Males currently aged 45/65	21.1	19.5-22.1	●	Life expectancy – Females currently aged 45/65	23.5	22.9-24.5	●	<p>● Light Purple</p>
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### Assessment

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- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements: key judgements and estimates

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





Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum revenue provision - £1.028m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year-end MRP charge was £1.028m a net decrease of £0.22m from 2021-22 (£1.050m).</p>	<p>We have carried out the following work:</p> <ul style="list-style-type: none"> <li>Assessed that the MRP has been calculated in line with the statutory guidance;</li> <li>Confirmed that the Council's policy on MRP complies with statutory guidance; and</li> <li>Assessed there are no changes to the authority's policy on MRP in comparison with 2021-2022.</li> </ul> <p>We consider management's estimate to be reasonable.</p>	<p>●</p> <p>Light Purple</p>

### 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
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- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Agresso	ITGC assessment (design and implementation effectiveness only)					No issues noted

### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

# 2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Significant events or transactions that occurred during the year.	<ul style="list-style-type: none"> <li>Not applicable – no occurrences</li> </ul>	<p><b>Auditor view</b> Not applicable</p> <p><b>Management response</b> Not applicable</p>
Business Conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement.	<ul style="list-style-type: none"> <li>Not applicable – no occurrences</li> </ul>	<p><b>Auditor view</b> Not applicable</p> <p><b>Management response</b> Not applicable</p>
Prior year adjustments identified	<p><b>Note 43</b></p> <p>This note discloses the 2021- 22 figures that have been restated within the category breakdown, but the total remains the same.</p>	<p><b>Auditor view</b></p> <p>Management had erroneously categorized within the category breakdown with incorrect expiration dates.</p> <p>The note shows restated amounts of periods ‘Not later than 1 year’, ‘Later than 1 year and not later than 5 years’, and ‘Later than 5 years’ which has resulted in disclosure adjustments of £293k, £168, and £31,478, respectively. We are satisfied this has been appropriately disclosed and documented in the final Accounts, and satisfied this does not impact the wider Accounts.</p>
Other matters that are significant to the oversight of the financial reporting process.	<ul style="list-style-type: none"> <li>Not applicable – no occurrences</li> </ul>	<p><b>Auditor view</b> Not applicable</p> <p><b>Management response</b> Not applicable</p>

## 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 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 was agreed by the Director of Resources and signed on 30 November 2023.
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 were 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"> <li>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</li> <li>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 covered elsewhere in this report.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 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 and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No material inconsistencies have been identified. We have issued 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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> </ul> <p>We have nothing to report on these matters.</p> <ul style="list-style-type: none"> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses.</li> </ul> <p>We have nothing to report on these matters</p>
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> <p>Note that work is not required as the Council does not exceed the threshold specified by the NAO.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2022/23 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 (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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

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## 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. To date, we have not identified any significant weaknesses from our initial procedures but will provide a detailed update in our Auditor's Annual Report, which we are planning to share later in the calendar year.

# 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 and consider that an objective reasonable and informed third party would take the same view. 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
<b>Audit related</b>			
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.

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 detailed in Appendix D.

## 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 [Grant Thornton International Transparency report 2023](#).

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Audit Adjustments
- D. Fees and non-audit services
- E. Audit letter in respect of delayed VFM work

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
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	•	•
Significant findings from the audit		•
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		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Action Plan – Audit of Financial Statements

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>●</p> <p>Medium</p>	<p><b>Incomplete Accruals of Income</b></p> <p>The council has a de-minimus level of £10,000 however during our Income/Debtors completeness testing, we identified several subsequent invoices raised above the de-minimus level in 2023-24 that relate to 2022-23. Management has not accrued for these balances resulting in an understatement of Income for 2022-23.</p>	<p>Management should ensure that sufficient processes are in place to accrue for significant items of income that have yet to be received at year-end to ensure the completeness of the income balance in the Accounts.</p> <p><b>Management response</b></p> <p>We will review the processes for income accruals to ensure that the income is accounted for in the correct reporting period for the 2023/24 statement of accounts.</p>
<p>●</p> <p>Medium</p>	<p><b>Fully depreciated assets still in use</b></p> <p>As part of our depreciation testing work, we identified fully depreciated vehicle, plant, and equipment assets of £3.4m that were still in use by the Council. Management has not reviewed the useful economic life of these assets resulting in the risk of misstatement of the depreciation balance.</p>	<p>Management will need to:</p> <ul style="list-style-type: none"> <li>Assess the fully depreciated assets as at 1 April 2022 and the impact towards depreciation charge in 2022-23 and the closing NBV if any of the assets are still in use during the year 2022-23, or if not in use, consideration of whether it should be written off as at 31 March 2023.</li> <li>For fully depreciated assets as at March 2023, undertake a frequent review of the assets with nil NBV during the year 2023-24 and moving forward to either write-off the assets or re-life them if they are still operational assets and depreciate accordingly.</li> </ul> <p><b>Management response</b></p> <p>TBC</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice



# C. 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?
<b>Disclosure and Presentation</b>	<p>Our audit identified some typographical and disclosure errors which were brought to management's attention. These errors were all minor and had no impact on the statement of financial position or statement of comprehensive income. They were of all a minor nature</p> <p><b>Management response:</b> Management agreed to amend.</p>	Yes
<b>Narrative Report</b>	<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><b>Management response:</b> Not adjusted as reported last year the council publishes performance data on a regular basis and the link within the accounts points the reader to a more comprehensive report on the council's performance. We believe that signposting the readers to the most appropriate source of data aids the understanding and decluttering of the statement of accounts</p>	No

# C. 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?
<b>Note 10 Expenditure and income analysed by nature</b>	We noted Benefit payments and Employee costs of £32,123k and £14,647k respectfully were incorrect and should be £31,429k and £15,970k respectfully.  Management response: Management agreed to amend.	Yes
<b>Note 23 Pension reserve</b>	From our review, we noted that note 23 lacked detailed disclosure in line with the CIPFA code.  Management response: Management agreed to amend.	Yes
<b>Note 32 Capital Expenditure and Capital Financing</b>	From our review, we noted the Total capital investment should be split by type and not bulk.  Management response: Management agreed to amend.	Yes
<b>Note 34 Short term creditor</b>	From our review of short-term creditors, we noted that Receipt in advance should be shown separately and not added to creditors.  Management response: Management agreed to amend.	Yes
<b>Note 47 Collection Fund</b>	From our work, we noted the disclosure of the Council acting as agent was omitted.  Management response:  The draft accounts includes the disclosure that the billing authority is acting as agent to the preceptors and government – The introduction to the collection fund state that Swale is the billing authority so I do not believe that this is a valid adjustment and should be removed from the report	No

# C. Audit Adjustments (continued)



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
<b>Note 24 Property, plant and equipment (PPE) assets</b>  As part of our PPE work, we noted £1,101k difference in reconciling the fixed asset register, financial statement, and valuation summary report.					Not material
DR PPE			1,101		
CR Revaluation Reserve			(1,101)		
<b>Note 9 – Defined Benefit Pension Scheme (g)</b>  As part of our pension work, we noted £100k difference in reconciling the Fair value of Fund assets to the actuary report and the financial statement					Not material
DR Pension Liability			100		
CR Pension Reserve			(100)		
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	

## C. Audit Adjustments (continued)



### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
<b>Note 41 Cash and Cash Equivalents</b>					
As part of our Cash and cash equivalent work, we noted a cash overdraft of £1,384k was incorrectly netted off against the Money market funds of £6,550k.					We believe the impact of this not material to the Accounts, and adequate disclosure is made within the Note of the position in this area.
DR Cash and cash equivalent		1,384			
CR Current liabilities		(1,384)			
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	

## D. Fees and non-audit services

We confirm below our final fees charged for the audit.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£72,620	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£72,620</b>	<b>TBC</b>

Details regarding the proposed fee for provision of non-audit services is as below.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit-related services: Certification of Housing Benefit Claim</b>	£27,600	TBC
<b>Total non-audit fees (excluding VAT)</b>	<b>£27,600</b>	<b>TBC</b>

# D. Fees and non-audit services

## Audit fees – detailed analysis

The table below provides a reconciliation between the Scale Fee agreed by PSAA and the Fee quoted on the previous page:

	<b>Proposed fee 2022/23</b>
Scale fee published by PSAA	£54,270
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
<b>Audit fee 2019/20</b>	<b>£54,270</b>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,350
<b>Proposed increase to agreed 2019/20 fee</b>	<b>£15,350</b>
<i>New issues for 2022/23</i>	
Introduction of ISA 315	£3,000
<b>Total audit fees (excluding VAT)</b>	<b>£72,620</b>

# E. Audit letter in respect of delayed VFM work

Dear Councillor Simon Clark,

The original expectation under the approach to VFM arrangements work 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 arrangements for local government by 30 September each year at the latest. 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 as 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 can 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 February 2024.

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

Yours faithfully

Matt Dean

Key Audit Partner

