

Swindon Borough Council

Audit Committee

Tuesday, 20 March 2018

Committee Room 1, Civic Offices

At 6.00 p.m.

Conservative Councillors

Steve Weisinger
(Chair)
Malcolm Davies
Mary Friend
Nick Martin

Labour Councillors

John Ballman
Des Moffatt
Kevin Small

Committee Officer: Iain Tucker (01793 463605)

email: itucker@swindon.gov.uk

Swindon Borough Council, Civic Offices, Euclid Street, Swindon, SN1 2JH
(Telephone 01793 445500)

Access Arrangements - The venue is wheelchair accessible and an infrared receiver hearing system is provided. If you have any special requirements to enable you to attend the meeting or would like to receive any of the pages contained in this agenda in a larger print size, please contact the Committee Officer as soon as possible prior to the date of the meeting.

AGENDA

1. Apologies for Absence

2. Declarations of Interest

Members are requested at the start of the meeting to declare any known interests in any matter to be considered, and are reminded that any such interest should also be declared at the start of an item or during any discussion of the matter concerned.

3. Public Question Time

See explanatory note below. Please phone the Committee Officer whose name and number appears at the top of this agenda if you need further guidance).

4. Minutes (Pages 5 - 12)

To receive the minutes of the meetings held on 28th November 2017 and 6th February 2018.

5. Annual Statement of Accounts 2017/18 (Pages 13 - 32)

6. **Letter to those charged with governance** (Pages 33 - 56)
7. **External Audit Plan year ending 31.03.2018** (Pages 57 - 74)
8. **External Audit - Progress report and sector update** (Pages 75 - 90)
9. **Internal Audit Plan 2018/19** (Pages 91 - 126)
10. **Head of Internal Audit update** (Pages 127 - 136)

Date of Despatch: 12th March 2018

Public Question Time - Swindon Borough Council remains committed to increasing its accountability to the public and to promoting active citizenship. 15 minutes will be allowed at the start of all Council meetings for questions to the Chair from the public about the work of the Committee (except for confidential matters, and matters relating to planning and licensing applications). We will give priority to those who submit questions in writing at least two days before the meeting. Questions must be relevant, clear, and concise. You may not use Public Question Time as an opportunity to make speeches or statements.

Questions in writing should be sent to the Committee Officer whose contact details appear on the agenda above or to the Director of Law and Democratic Services, we will publish it, along with the answer, alongside the Minutes. The process associated with asking a public question is set out in the "Public Question Time at Council Meetings Protocol and Guidance" available on the Council's Website.

(<http://ww5.swindon.gov.uk/moderngov/ecCatDisplay.aspx?sch=doc&cat=13338&path=0>) or from the Committee Officer named above.

The Audit Committee - Terms of Reference

(the complete terms of reference and programme of activity for the Audit Committee are set out in Minute 10 of the meeting of the Audit Sub-Committee held on 16 June 2015)

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- In relation to the authority's internal audit functions:
 - Oversee its independence, objectivity, performance and professionalism
 - Support the effectiveness of the internal audit process
 - Promote the effective use of internal audit within the assurance framework
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risk of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to

Members, and monitor management action in response to the issues raised by external audit.

- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

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AUDIT COMMITTEE

TUESDAY, 28 NOVEMBER 2017

PRESENT:- Councillors Steve Weisinger (Chair), John Ballman, Malcolm Davies, Mary Friend, Nick Martin, Des Moffatt and Kevin Small

23. Declarations of Interest

The Chair reminded members to declare any known interests in any matter to be considered. No such declarations were made.

24. Public Question Time

There were no public questions.

25. Minutes

Resolved - That the minutes of the meeting held on 13th September 2017 be confirmed and signed.

26. Mid Year Treasury Performance 2017/18

The Committee received a joint report of the Cabinet Member for Finance and Commercialisation and the Corporate Director, Resources and Growth setting out the mid-year Treasury Management performance for 2017/18.

Resolved – That the mid-year Treasury Management performance as at the end of September 2017 be noted.

27. Corporate Risk Management Update

The Committee received a summary report of risk management activity within the Council, including the most recently updated and reformatted Corporate Risk Register. It was noted that it was a function of the Audit Committee to provide independent assurance to the Council of the effectiveness of the Council's risk management, internal control and its overall assurance framework and that this report summarised the areas that the Committee might wish to consider in gathering this assurance.

The Director of Performance, Organisational Improvement and Communications and the Corporate Planning Lead, Resources introduced the report, providing an overview of the work done in support of the Council's Risk Management processes and to integrate and align with the Council's performance management arrangements and changes made to the corporate risk management process and the Corporate Risk Register following input from members of the Audit Committee.

The Corporate Planning Lead, Resources took members through the detail of the report, expanding on the main key risk areas identified in the Corporate Risk Register, attached to the report at Appendix 1, and the respective causes, impacts

and mitigating actions to reduce likelihood for each of the major identified risk areas.

Councillors Des Moffatt and Kevin Small asked a series of questions including: the weightings used before and after mitigation, the quality assurance on mitigation measures, the effect of uncertainty from the national political context on risk, and the impact of safeguarding issues. Officers responded at the meeting.

Councillor Moffatt undertook to send an email to officers concerning meetings with parishes, to which he had not been invited as chair, to discuss mitigating measures. The Chair requested that the email be included alongside the Minutes.

Resolved – (1) That the report be noted and that the risk management approach and processes and risks captured in the Corporate Risk Register be endorsed.

(2) That the adjustments to the corporate risk management process and changes to the Corporate Risk Register, as reflected in the revised report format and presentation, be also endorsed.

(3) That the officers be thanked for attending the meeting and for their full and open responses to members' questions and observations on matters relating to the Council's Corporate Risk Management Strategy and specific issues relating to the key risk areas identified in the Corporate Risk Register.

28. Internal Audit report: Performance and Risk

The Committee received a report of the Head of Internal Audit on the key findings of the Internal Audit of the Council's performance and risk management framework. It was noted that the review had identified number of areas where there remained opportunities to develop processes and increase the Council's maturity in relation to performance and risk, including:

The regular integrated review of performance and risk at CMT and LAG level

The inconsistent culture and practice below CMT level in relation to using performance and risk information.

Although performance culture appears to be improving, as evidenced by the ongoing development of performance and risk scorecards for each of the Council's directorates, it was recognised that Heads of Service and Corporate Management Team needed to champion performance and risk management at a directorate and service level, to ensure required processes embed in the organisation and the benefit of performance and risk management is delivered.

The absence of standards or guidance to determine how performance and risk management should be applied to the Council's partnerships. Issues had been identified in relation to a lack of transparent reporting, or lack of KPIs to govern these.

As a result, the Internal audit review had found that the impact and materiality of Performance and Risk Management was considered high and that satisfactory arrangements are in place resulting in a moderate risk to the Council.

The Council's Corporate Planning Lead Officer was in attendance and provided the meeting with a current position statement in relation to the implementation of the internal audit recommendations and also responded to members' questions on issues raised regarding identified risk areas, the management response to the audit conclusions and key recommendations, and progress in implementing the action plan.

Resolved – That the report be noted.

29. External Audit: Annual Audit letter

The Committee received the External Auditors' Annual Audit letter. It was noted that it was the intention that the Letter should communicate the key messages of the Audit Findings report, considered by the Committee at its last meeting, to the Council and to external stakeholders, including members of the public.

Elizabeth Cave, the External Auditors' Director for the Council, introduced the report, summarising the key findings arising from their work at the Council for the year ended 31 March 2017, as reported in detail to the last meeting of the Audit Committee in the Audit Findings report. Ms Cave made reference to the Council needing to continue to review its accounts processes and supporting documentation to enable it to meet the requirement to have its accounts audited and opinion issued by the earlier deadline next year of July 31st, as set out by the Government.

Resolved – (1) That the report be noted.

(2) That, following the Chair's announcement that this would be the last Audit Committee attended by Elizabeth Cave, this Committee records its appreciation for the work of Ms. Cave on behalf of Swindon Borough Council.

30. External Audit: Progress and update

Chris Hackett (Grant Thornton) presented a report advising the Committee of the External Auditors' progress, as at November 2017, in respect of the delivery of their audit responsibilities. .

The Update report also included a summary of key emerging national issues and developments that might be of interest to the Committee.

Resolved – That the update report and the summary of key emerging national issues and developments be noted.

31. Head of Internal Audit update

The Committee received a report of the Head of Internal Audit summarising the main issues arising from the Internal Audit reports finalised since the last Audit Committee meeting in September 2017, progress made against the Annual Internal Audit Plan 2017/18 and Internal Audit staffing and resource issues.

Resolved – That the report be noted.

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AUDIT COMMITTEE

TUESDAY, 6 FEBRUARY 2018

PRESENT:- Councillors Steve Weisinger (Chair), Malcolm Davies, Mary Friend, Des Moffatt and Timothy Swinyard

Councillor Toby Elliott, the Cabinet Member for Strategic Planning and Sustainability, attended the meeting in respect of Minute 41.

Apologies for absence were received from Councillors John Ballman, Nick Martin and Kevin Small.

32. Declarations of Interest

The Chair reminded Members to declare any known interests in any of the matters to be considered at the meeting.

No such declarations were made.

33. Public Question Time

There were no public questions.

34. Minutes

Resolved - That it be noted that, unfortunately, the minutes of the meeting held on 26th November 2017 (referred to at agenda item no. 3) had been omitted from the agenda. It was agreed that consideration of the minutes be deferred until the next meeting of the Committee and that, in the meantime, the minutes be circulated to members for information.

35. Exempt Items - Exclusion of Press and Public

Resolved - That, in accordance with Section 100A(4) of the Local Government Act 1972, the public be excluded during the discussion of the matters referred to in the item listed below on the grounds that it involves the likely disclosure of exempt information as defined in the respective paragraphs of Part 1 of Schedule 12A of the Act.

-	<u>Item No.</u>	<u>Paragraph No.</u>	<u>Minute No.</u>
	11	3	41

36. Treasury Management Strategy 2018/19

The Cabinet Member for Finance and Commercialisation and Corporate Director, Resources and Growth submitted a joint report concerning the Treasury Management Strategy for 2018/19, including Prudential Indicators up to 2020/21, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.

The Council's Head of Finance introduced the report, summarising the main areas of the strategy for members, including capital issues, the capital plans and prudential indicators and the MRP strategy, and also outlining changes to the Treasury Management and Prudential Codes in response to the provisions of a revised Prudential Code issued at the end of December 2017.

In response to a question by Councillor Davies, Mr Burbidge agreed to circulate to members the latest benchmarking information available to the Council.

Resolved – That the Council's Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1 of the joint report, be recommended for approval by Full Council at its meeting on 22nd February 2018.

37. Internal Audit report - Commercial Assets

In accordance with its established practice of considering at least one individual audit report at each meeting, the Committee received a report on the outcomes and key findings on the Internal Audit Review to provide assurance that the Council's strategy for non-operational/commercial property investment is up to date, reflects best practice and provides a clear direction to achieve the Council's goals for commercial assets. An assessment of how well the existing commercial property portfolio was being managed was also conducted. The Internal Audit report was issued in draft early in 2017/18 but took some time to clear due to changes in senior staff.

It was noted that the review, finalised in October 2017, had identified an "Of Concern" level of risk.

Susie Kemp, the Council's Corporate Director, Resources and Transformation, and Rob Richards, the Council's Head of Property Assets, were in attendance to provide a current position statement in relation to the implementation of the internal audit recommendations and also responded to questions put by Councillors Moffatt and Weisinger on issues raised, including.

- Out of borough investment opportunities and the applicable criteria for such investment opportunities
- Property Strategy and HRA assets
- The current position with regard to the development of an asset management strategy and asset management plan

Resolved – (1) That the report and the Internal Audit Review of Commercial Assets, attached at Appendix 1 to the report, be noted.

(2) That a follow-up review of Commercial Assets be submitted to the Audit Committee in 12 months' time.

38. External Audit Certification Letter

Barrie Morris (Grant Thornton), submitted a report certifying the Council's Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £61.486m. It was noted that this certification typically takes place six to nine months

after the claim period and represents the final part of the process to confirm the Council's entitlement to funding.

In response to a question put by Councillor Moffatt regarding the details of claims and returns certified for 2016/17, specifically the amount the housing benefits subsidy claim and the allocation of this total between the social housing sector (HRA and Housing Associations) and tenant landlords, it was agreed that a written answer would be provided.

Resolved – That the report be noted.

39. External Audit update

Barrie Morris (Grant Thornton) presented a report advising the Committee of the External Auditors progress, as at 17th January 2018, in respect of the delivery of their audit responsibilities. The report also included a summary of key emerging national issues and developments that might be of interest to the Committee.

Resolved – That the report and supporting papers be noted.

40. Head of Internal Audit update

The Committee received a report of the Head of Internal Audit summarising the main issues arising from the Internal Audit report finalised since the last Audit Committee held in November 2017, progress made against the Annual Internal Audit Plan 2017/18, and providing updates on other key issues.

In response to a question by Councillor Mary Friend regarding the provision of support for young people and, in particular, the importance of them developing personal financial management skills, the Head of Internal Audit agreed to raise the issue with the Head of Education and advise members if such provision was embedded in the curriculum of Swindon schools.

Resolved – (1) That the report be noted.

(2) That a report concerning compliance with contract standing orders be submitted to the next meeting of the Committee.

41. Internal Audit report - New Eastern Villages

In accordance with its established practice of considering at least one individual audit report at each meeting, the Committee received a report on the outcomes and key findings on the Internal Audit Review to provide assurance that the Council's management of the New Eastern Villages development is sound, reflects best practice and provides a clear direction to achieve the Council's goals aligned in the Council Plan and will contribute significantly to the achievement of the Council's pledges and priorities related to housing targets and economic development. It was noted that the programme to deliver the New Eastern Villages is one of the most significant and complex that the Council has undertaken in recent years, due to the scale of the development, the infrastructure required, the number of developers and land owners involved and the complexity of land ownership arrangements.

It was noted that the review, finalised in January 2018, had identified an "Of

Concern” level of risk.

Councillor Toby Elliott, the Cabinet Member for Strategic Planning and Sustainability, Susie Kemp, the Council’s Corporate Director, Resources and Transformation, who is also the Corporate Lead for NEV, and Richard Bell, the Council’s Head of Planning, Regulatory Services and Heritage, were in attendance to provide a current position statement in relation to the implementation of the internal audit recommendations.

Following their introduction of the main elements of the Management Response to the Audit, as set out in the Action Plan appended to the report, the Cabinet Member and officers responded to questions put by Councillors Davies, Friend, Moffatt and Weisinger on issues raised, including.

- Land banking by property companies
- The requirement in the local plan to protect a canal route
- The Local Plan target of 22000 new homes by 2026 and whether this is deliverable in the officers’ view
- The utilisation of allocated financial resources within specified timeframes, including strategic transport allocations.
- Corporate Management team and Cabinet oversight of progress and key risks

Resolved – (1) That the report and the Internal Audit Review of the New Eastern Villages development, attached at Appendix 1 to the report, be noted.

(2) That a follow-up review and updated position be reported to the Audit Committee in 12 months’ time.

Annual Statement of Accounts 2017/18

Committee: Audit Committee

Date: 20th March 2018

Author: Director of Finance

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 This report provides an update on the progress towards the completion of the 2017/18 Statement of Accounts and future changes affecting their production.
- 1.2 The audit committee is the designated body for approval of the Council's final accounts.

2. Recommendations

The Committee is recommended to:

- 2.1 Confirm the Accounting Policies for 2017/18.
- 2.2 Note the content of this report.

3. Detail

Statutory Deadlines

- 3.1 Under statutory requirements the draft annual accounts for 2017/18 require authorisation by the Council's Section 151 Officer (S151) by 31 May 2018 and publishing as final by 31 July. Publication by 31 July must be met whether the audit of the accounts is complete or not.
- 3.2 The 2017/18 closing timetable has the deadline of the 25th May for the sign-off by the S151. This includes the wider group accounts and improving upon the quality control/review of working papers.

Accounting Policies

- 3.3 The Accounting policies for 2017/18 require an update to reflect local changes in respect of Group Companies.
- 3.4 This involves the removal of references to "parent company" or "subsidiary" in relation to Thamesdown Transport, and the inclusion of a new policy on the accounting treatment for the Wichelstowe Joint Venture. This new policy is shown below:

"The Wichelstowe LLP partnership is considered a joint venture for accounting purposes, with net assets and liabilities of the partnership shown proportionately (50%) in the SBC group statements."

Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

Annual Statement of Accounts 2017/18

Committee: Audit Committee

Date: 20th March 2018

- 3.5 The changes are shown in Appendix 1, but in all other ways the accounting policies remain as they were for 2016/17.

Accounting Code Changes

- 3.6 There are no Code changes for 2017/18 that impact on the production of the statements or way in which items should be accounted for this financial year.

- 3.7 In the next two years there are two significant accounting standard changes being implemented:

3.7.1 In 2018/19 there are changes to the way in which Financial Instruments are classified and required to be accounted for. In simple terms financial instruments are contracts between two parties where there is agreed payment for the promise of supply/service, e.g. debtors/creditors, investments, borrowing. Depending on the classifications arrived at, and subject to statutory override, the fair value revaluation of such items (i.e. ensuring the carrying value reflects a current market value) could impact on different sections of the financial statements.

3.7.2 In 2019/20 there will be a change to the way in which leases are accounted for. Currently leases are classified into operating and finance leases. Operating leases only affect revenue, whilst finance leases are included as assets on the balance sheet with a corresponding lease liability for the future payments due. From 2019/20 all leases, subject to clarifications on short-term/low value items, are expected to be added as assets to the lessee balance sheet. Whilst there are few leases known to be impacted by this change, there will need to be a wide review to evidence the position.

4. Alternative Options

- 4.1 None – the annual Statement of Accounts is a statutory process.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

Annual Statement of Accounts 2017/18

Committee: Audit Committee

Date: 20th March 2018

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

Diversity Impact Assessment

- 5.5 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would have a detrimental impact on services.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Updated Accounting Policies

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ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for this financial year and its position at the year-end of 31 March. The Authority is required to prepare Annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Regulations.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

There are also qualitative aspects to financial information and the areas of relevance, reliability, comparability, how understandable they are and materiality are considered in the accounting treatment of transactions, along with the going concern concept that the authority has prepared its accounts on the assumption that it will continue in operational existence for the foreseeable future.

The figures in the accounts are subject to rounding to thousands (£000's) but should not be rounded excessively, allowing for consistency and balancing between different statements and disclosure notes.

b) Revenue recognition and Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Revenue from the sale of goods is recognised in the period that the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Revenue from the provision of services is recognised in the period when the Authority provides the service and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date that material supplies are received and their consumption, material balances are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts remain unpaid beyond a month, the income is automatically reversed from the Comprehensive Income and Expenditure Statement and a bad debt provision created.

As part of the annual accrual process a requested de minimis level is set for year-end service accruals to reflect materiality thresholds. For cyclical periodic payments, such as utility bills, the

accounts aim to reflect a full twelve months in the accounting year, which may not necessarily be April to March, but will reflect 12 months' worth of costs.

c) Acquisitions and Discontinued Operations

Acquisition or discontinuation of services are shown on the face of the comprehensive income and expenditure statement in the year that they were acquired/discontinued.

d) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

e) Prior Period Adjustments, Changes in Accounting Policies and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

f) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding PPE during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. This is called the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance to MRP, by way of adjusting transactions with the Capital Adjustment Account in the Movement in Reserves Statement.

g) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages, salaries and paid annual leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Where the value of untaken leave is calculated as being material, defined as greater than 1% of the gross cost of services, an accrual is made for the estimated cost of holiday entitlements earned by employees but not taken before the year-end. The accrual is made at the wage and salary rates applicable to the period in which the employee earned the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement, as allowed under regulations.

Post-Employment Benefits

Employees of the Authority are members of two separate pension schemes:

The Teachers' Pension Scheme, administered by Teachers' Pensions Agency on behalf of the Department for Education (DfE).

The Local Government Pension Scheme, administered by Wiltshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Wiltshire pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the indicative rate of return on the iBoxx Sterling Corporates AA over 15 years Index at the IAS19 valuation date with one adjustment – the removal of recently re-rated bonds from the index).

The change in the net pension liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- Net interest on the net defined benefit liability– the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Remeasurement of the net defined benefit liability – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- Contributions paid to the Wiltshire pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Guarantees

The Authority views requests for parent company guarantees on a case-by-case basis. It is assessed whether there is any significant risk in the arrangement and the subsequent extent that any provision would be required.

Financial Assets

Financial assets are classified into two types:

Loans and receivables: assets that have fixed or determinable payments but are not quoted in an active market

Available-for-sale assets: assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

j) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that any conditions attached to the grant or contribution will be satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors or receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the town centre. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

k) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is classified as intangible assets. The Authority considers intangible assets against materiality of the expenditure incurred. There are currently no identified intangible assets of the Authority.

l) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services chargeable under the contract during the financial year.

m) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services, production of goods, is a surplus asset held for sale or held for any regeneration or other community benefit.

Investment properties are measured initially at cost and subsequently at fair value, the price that would be received to sell an asset in an orderly transaction between market participants for its highest and best use. Properties are not depreciated but are revalued according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Comprehensive Income and Expenditure statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital

Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

n) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

An operating lease is any lease other than a finance lease. Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of PPE is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

p) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority has not capitalised borrowing costs incurred whilst assets are under construction during the year.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Valuations are carried out by internal valuers. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The Authority carries out a rolling programme that ensures that all operational property is revalued at least every five years, with more frequent reviews for market valued assets and assessment of carrying value. The valuers consider the impact of market changes to valuations and will revalue assets annually where evidence suggests carrying value is materially misstated. The de minimis level applied is £10,000. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. All valuations have been carried out by the Council's internal valuers, who are RICS qualified.

Impairment

Assets categories are assessed at each year-end for any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

The Council uses the straight-line method of calculating depreciation on all its PPE, with the exception of non-depreciable land, community assets, investment properties and assets under construction. Straight-line depreciation is the method in which the cost of an asset is split equally over the period of its estimated useful life.

Depreciation is charged in the year of acquisition and disposal.

Due to the Right-to-Buy scheme where the stock is reducing each year, it is more appropriate for the Council to use the average value of the stock to calculate depreciation on Council Dwellings.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property, 20 years for dwellings, or 20-70 years as estimated by the valuer for other operational assets
- Vehicles, plant, furniture and equipment – generally straight-line over five years (dependent on the assessed expected useful life)
- Infrastructure – straight-line allocation over twenty years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Components

Each asset on the balance sheet is made up of possible components, some of which may have different life spans to others and which might be accounted for distinctly for depreciation purposes. To enable a structured approach to component accounting the following principles are applied:

To be considered for componentisation an individual asset must:

- Have a carrying value of at least £5m, and
- Have undergone enhancement works over £100k, or
- Have been acquired, or
- Have undergone revaluation, or
- Undergo a change of category classification

A component must:

- Have a cost of at least £2m or,
- Cost at least 20% of the overall asset (whichever is higher) and
- Have a useful life which is at least plus or minus five years from other components/overall asset.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Associated costs of disposal are contained within the net cost of services analysis, as part of apportioned central support costs. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other

assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of PPE is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Assets under Construction

These assets are in the process of being built and are not operational for use.

Heritage Assets

The Authority's Heritage Assets are mainly held in the Authority's Museums. The Museums contain a range of artistic, porcelain, locomotive and archaeological collections which are held for local knowledge, details of which can be found online:

<http://swindonmuseumandartgallery.org.uk/home/collections/>

<http://www.steam-museum.org.uk/Collections/Pages/donations-bequests.aspx>

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, the measurement rules are relaxed in relation to heritage assets and for all heritage classified collections values have been taken by reference to insurance valuations.

q) Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the PFI schools, the liability was written down by an initial capital contribution of £10m.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

PFI remains the significant arrangement of this type but similar arrangements would be accounted for along these lines if entered into.

r) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

s) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant notes.

t) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

u) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

v) Collection Fund / Agency Arrangements

The Collection Fund is a separate account required through statute by billing authorities. It presents the amounts collected as income and the amounts paid out as precepts to precepting authorities (e.g. the Fire Authority). After changes in the accounting guidance, the Council will be recording on an agency basis only the amounts that relate to its own balances. Debtors / Creditors and other balances relating to preceptors are no longer recorded on the Council's balance sheet.

Retained Business Rates, Top-up income and Council Tax included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income. NDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and general rates, is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

w) Interests in Companies and Other Entities

The Authority has interests in companies that are subsidiaries, and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost.

Swindon Borough Council, as sole shareholder and therefore parent organisation of Public Power Solutions Ltd (PPSL), Common & Chapel Solar Farms and Forward Swindon Limited (FSL) is required to produce group financial statements for the combined entities where the impact on the accounts is material. On that basis Forward Swindon Limited is not included in consolidation.

The accounting policies that the group statements follow are those of the Authority.

Accruals and transactions between the group entities have been removed from the group statements using information from the subsidiary and authority records.

As per the Code, consolidation and disclosure notes to the group accounts are only included where material amounts or details over the single entity accounts are witnessed.

Consolidation of PPS, and Common & Chapel Solar Farms figures in these statements is by the acquisition method, on a line-by-line basis, using the companies' final accounts, or completion statements for Thamesdown Transport, as the base detail for consolidation.

The Wichelstowe LLP joint venture company is considered a joint venture for accounting purposes, with net assets and liabilities of the company shown proportionately (50%) in the SBC group statements.

The Authority also includes maintained schools within its single entity accounts as per the Code. For such schools their material assets are contained on the balance sheet, and their income and expenditure transferred onto the Council general ledger at end of year for inclusion in the CIES.

Letter to those charged with governance

Audit Committee

Date: 20th March 2018

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 As part of their audit of the Council's financial statements and in order to comply with the International Auditing Standards (UK and Ireland), the External Auditor is required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the Audit Committee note the responses submitted by the Chair on behalf of the Audit Committee and by management.

3. Detail

- 3.1 The Council's financial statements are audited by its External Auditor, Grant Thornton.
- 3.2 In order for the External Auditor to comply with the International Auditing Standards (UK and Ireland) they need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. The External Auditor is also required to make inquiries of both management and 'those charged with governance' (the Audit Committee) as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements. This applies to both the Council and to the Council's subsidiary companies.
- 3.3 The responses in the attached Appendix 1 address the points set out in auditing standards.

4. Alternative Options

- 4.1 Not applicable
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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Letter to those charged with governance

Audit Committee

Date: 20th March 2018

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Diversity Impact Assessment

- 5.4 None

Risk Management

- 5.5 Potential risks to the Council are identified in Appendix 1.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1: Grant Thornton: Informing the risk assessment for Swindon Borough Council

9. Key Decision/Decision in Forward Plan

Not Applicable

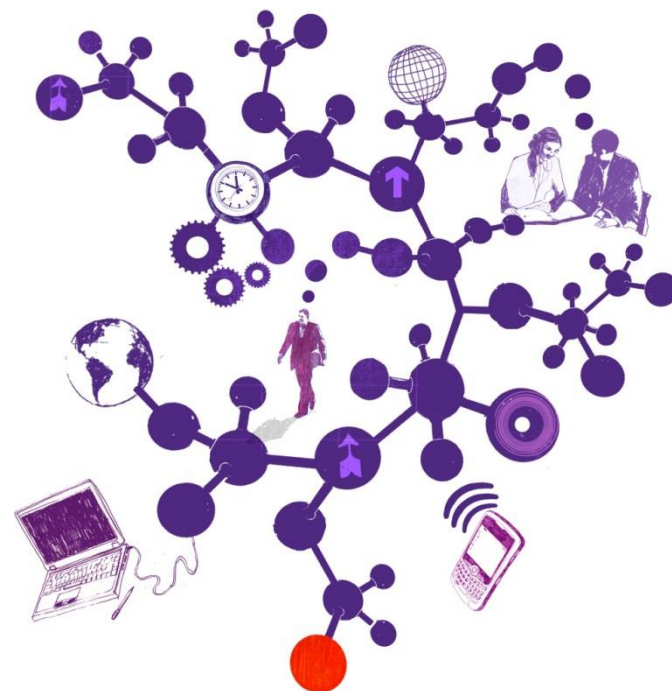
Informing the audit risk assessment for Swindon Borough Council and Group

Year ended
31 March 2018

Barrie Morris
Engagement Lead
T 0117 305 7708
E barrie.morris@uk.gt.com

Chris Hackett
Manager
T 0117 305 7876
E chris.i.hackett@uk.gt.com

Anna McWilliam
Audit In-charge
T 0117 305 7611
E anna.k.mcwilliam@uk.gt.com



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

Contents

Section	Page
Purpose	4
Fraud	5
Fraud Risk Assessment	6 - 8
Laws and Regulations	9
Impact of Laws and Regulations	10 - 11
Going Concern	12
Going Concern Considerations	13 – 14
Related Parties	15
Accounting Estimates	16
Appendix A Accounting Estimates	17 - 21

Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make. The responses cover the Council and its related companies.

Fraud

Issue
<p data-bbox="68 382 435 411">Matters in relation to fraud</p> <p data-bbox="68 461 1317 489">ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.</p> <p data-bbox="68 532 1792 668">The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.</p> <p data-bbox="68 711 1792 811">As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.</p> <p data-bbox="68 846 1804 911">As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:</p> <ul data-bbox="68 953 1514 1089" style="list-style-type: none">•assessment that the financial statements could be materially misstated due to fraud•process for identifying and responding to risks of fraud, including any identified specific risks•communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud•communication to employees regarding business practices and ethical behaviour. <p data-bbox="68 1132 1804 1225">We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.</p>

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</p>	<p>The Section 151 Officer ensures that there are adequate controls in place to mitigate the key risks within the Council's financial processes. Internal Audit provides assurance regarding the adequacy and effectiveness of these controls and believe that the risk of significant misstatement is low.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council's Code of Conduct sets out clear expectations regarding an employee's conduct. The Council has in place an Anti-Fraud and Bribery Strategy that is supported by a Whistleblowing Policy and a Fraud Response Plan. The Council has a Fraud Awareness e-learning training package on the Learning Zone. The annual Internal Audit and Corporate Fraud Team plan, approved by Audit Committee, includes proactive fraud work. Internal Audit also issues a Fraud Bulletin that makes staff aware of the types of fraud being committed elsewhere. The Council's Corporate Fraud Team focuses its work on high risk areas such as right to buy, tenancy fraud and Council Tax discounts/exemptions.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Areas identified as high risk by Internal Audit either through their work on NFI, reviews of relevant documents such as Protecting the Public Purse, previous audit experience, investigations and the experience of colleagues from other authorities and issues raised through the West of England Fraud Group have been included in the annual audit plan. The work of the Corporate Fraud Team is also focussed on high risk areas such as right to buy, tenancy fraud, Council Tax single person discount, etc.</p>

Fraud risk assessment (continued)

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p> <p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal Audit has provided assurance, for the areas and items tested, that there have been adequate internal control arrangements in place. Recommendations are made to management where there are missing or failing controls.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets) ?</p>	<p>I am not aware of any such areas.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>A Fraud Update report is produced by the Head of Internal Audit which includes reference to investigations, work of the Corporate Fraud Team, output from NFI etc. Audit Committee also has sight of the Council's Anti-Fraud and Bribery Strategy, Whistleblowing Policy and Fraud Response Plan. The Chair of Audit Committee is briefed by the Head of Internal Audit on any significant investigations. Outcomes of Whistleblowing investigations are reported to Standards Committee.</p>

Fraud risk assessment (continued)

Page 42

Question	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Staff are reminded on a regular basis of the Code of Conduct, Gifts and Hospitality and declarations of interest, through the Core Brief etc. The Whistleblowing Policy applies to staff, Members, suppliers and contractors, volunteers and anyone acting on behalf of the Council.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported ?	The Fraud Bulletin raises potential issues and includes reference to the Whistleblowing Policy. The Whistleblowing Policy is referred to in the Core Brief. The Council has a dedicated whistleblowing hotline. It also has a facility where concerns/allegations regarding fraud can be reported on-line. Significant issues i.e. where right to buys have been stopped due to fraudulent applications and housing tenancy frauds are included in the Head of Internal Audit's update to each Audit Committee.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?	I am not aware of any such relationships or transactions. Staff and Members are required to declare any such relationships. Also, all Chief Officers and Statutory Officers are required to make such declarations regarding such issues as part of the closure of the accounts.
Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within specific departments since 1 April 2017 ?	Yes. Investigations carried out by Internal Audit are reported to relevant managers/Heads of Service and where necessary appropriate disciplinary action is taken. The Director of Finance and Chair of Audit Committee are kept informed of investigations by the Head of Internal Audit at their 1:1's. The Head of Internal Audit's report summarises fraud investigations undertaken and updates go to Audit Committee. Details of whistleblowing cases go to Standards Committee.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2017 ? If so, how has the Audit Committee responded to these ?	Yes during 2017/18 (to date) there have been thirteen whistleblowing cases. These were all referred to the Council's Monitoring Officer. All were investigated and a brief summary of the outcomes reported to Standards Committee.

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations ?	All Cabinet reports must be cleared through the Director of Law and Democratic Services. All members of staff are required to comply with the requirements of the Council's Code of Conduct. A risk-based internal audit plan is completed and individual audits, where relevant, will look at compliance with relevant legislation. Procurement surgeries are run where legal and procurement advice is given to ensure compliance with both Council Contract Standing orders and EU requirements.
How does management gain assurance that all relevant laws and regulations have been complied with ?	See above plus: Annual Governance Statement including Heads of Service declarations; Internal Audit reports and Fraud updates provide further assurance.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with ?	Annual Governance Statement including Heads of Service declarations; Internal Audit reports and Fraud updates provide further assurance.

Impact of laws and regulations (continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2017, or earlier with an on-going impact on the Council's 2017/18 financial statements ?	A number of instances of non-compliance have been identified as a further result of an internal audit review of compliance with contract standing orders and these are being addressed. However, there is no material impact on the Council's 2017/18 financial statements.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims ?	The Director of Law and Democratic Services has oversight of litigation and the necessary legal advice is provided in order to identify and evaluate those claims.
Is there any actual or potential litigation or claims that would affect the financial statements ?	There were no settlements, litigations outstanding or pending, or contingent liabilities relating to the Council likely to be in excess of £500,000.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	There are no known such reports.

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Page 47

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern ?	<p>Cabinet has adopted a strategy in recent years to deliberately deliver future years' savings early to build up its reserves to fund the Council's Change Programmes to allow it to transition to a more financially sustainable position. The Council's financial position is under control and despite significant financial pressures in Children's Services, the budget has been delivered without drawing on General Reserves for the past nine years. It is anticipated to be the same in 2017/18 and has a balanced budget in place for 2018/19. The Council also has a balanced profile of investments and borrowing. Cash flows are monitored and repayments for maturing debt factored into forecasts as part of routine Treasury processes. On that basis, the management team feels that the Council's financial position is strong.</p> <p>There is also an expectation within the Code 3.4.2.23 that "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting".</p>
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern ?	<p>The Management Team does not consider there are any immediate, significant concerns around the going concern of the authority for the next twelve months, although this is included as a medium term risk in the Corporate risk register, due to the combination of increasing demand and falling funding. The financial position of the authority is discussed monthly at Corporate Management Team and with Cabinet Members (LAG) and is formally reported to Cabinet at least bi-monthly. The Authority has a balanced budget for 2018/19 and has identified a high-level plan to balance future year's budget through the Swindon Programme within the context of a medium term financial outlook. The in-year monitoring statements to Cabinet formally consider all Funds with sections on the HRA and DSG, as well as the core General Fund budget. The key focus of financial discussion at Board and LAG are on future year's financial sustainability.</p>
Are arrangements in place to report the going concern assessment to the Audit Committee ?	<p>The Council's MTRP, which contains the main forecasts for future year budgets over the next four financial years, is routinely circulated through Cabinet.</p>

Going concern considerations (continued)

Question	Management response
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year ?	Yes – the MTRP is consistent through reporting.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern ?	Yes, where relevant.
<p>Do you agree with the adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).</p> <p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made ? (Examples include adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).</p>	No
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow ?</p> <p>If so, what action is being taken to improve financial performance ?</p>	No. Treasury activity is such that cash flows are routinely monitored and action taking to ensure funds available.
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives ?</p> <p>If not, what action is being taken to obtain those skills ?</p>	There has been turnover at a senior level within the Council but vacancies have been successfully recruited to on a permanent basis.

Related Parties

Issue

Matters in relation to Related Parties

Councils are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
 - associates;
 - joint ventures;
 - an entity that has an interest in the Council that gives it significant influence over the Council;
 - key management personnel, and close members of the family of key management personnel, and
 - post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.
- A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Question

What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?

Management response

Each Councillor and senior manager is required to complete a disclosure as part of the accounts closing process.

Accounting estimates

Issue

Matters in relation to accounting estimates

Councils apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

the estimate is reasonable; and

estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Question

Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?

Management response

Yes – professionally qualified staff provide their best estimates using information available.

How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?

Confirmation of professional judgement is provided within the annual accounts, along with updates through the year where any changes to past process are required.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property valuations	Property valuations are made by the external valuers.	Valuers notified of changes to the estate from the prior year.	Use of internal valuers (RICS qualified).	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert	No
Estimated remaining useful lives of PPE	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	Use of internal valuers (RICS qualified).	The useful lives of property are recorded in accordance with the recommendations of the external RICS qualified valuers.	No
Depreciation	Depreciation is provided for on property plant and equipment with a finite useful life on a straight-line basis.	Consistent application of depreciation method across assets.	No	The length of the life is determined at the point of acquisition or revaluation.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use of internal valuers (RICS qualified).	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert.	No
Provision for doubtful debts	A provision is estimated using a proportion basis of an aged debt listing.	The finance team calculate the provision.	No	A percentage is applied to the debtors based on the aging, or status of the debt/account.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Council follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the finance team and the accounts are reviewed by the s151 officer.	Some instruments receive Fair Value valuation from third party specialists.	The measurements are based upon the best information held at the current time.	No
Creditor accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No
Pension Fund Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuary Hymans Robertson. These figures are based on making % adjustments to the closing values of assets/liabilities.	For the LGPS the Council responds to queries raised by the administering authority Wiltshire Council	The Council are provided with an actuarial report by Hymans Robertson.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	The finance team apportion central support costs to services based on appropriate bases.	All support service cost centres are allocated according to the agreed processes.	No	Appropriate bases are reviewed each year to ensure equitable.	This is no longer required under the Code due to CIES reporting requirements mirroring internal reporting arrangements.
Business Rates Appeals	Appeals are categorised by type of appeal. The potential loss is established by applying specific local knowledge to any high value appeals and applying appropriate risk-based calculations for each case based on individual factors of type, age and rateable value.	The assumptions used are reviewed by management on an ongoing basis as required.	No	The number of appeals can not be certain and the materiality of the appeals can only be estimates.	No



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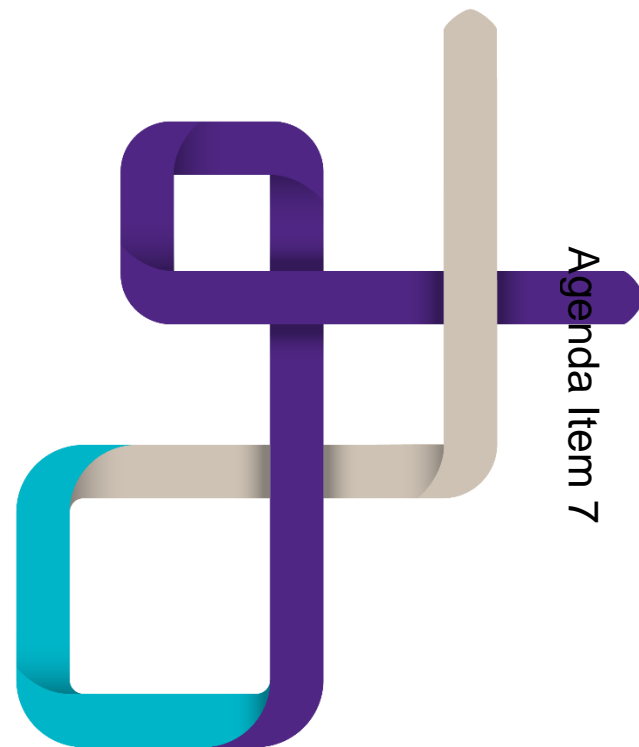
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External Audit Plan

Year ending 31 March 2018



Contents



Your key Grant Thornton team members are:

Barrie Morris

Engagement Lead

T: 01173057708

E: barrie.morris@uk.gt.com

Chris Hackett

Manager

T: 01173057876

E: chris.i.Hackett@uk.gt.com

Anna McWilliam

In-charge Accountant

T: 01173057611

E: anna.k.mcwilliam@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Deep business understanding	4
3. Significant risks identified	5
4. Reasonably possible risks identified	7
5. Other matters	8
6. Materiality	9
7. Group audit scope and risk assessment	10
8. Value for Money arrangements	11
9. Audit logistics, team & audit fees	12
10. Early close	13
10. Independence & non-audit services	14
Appendices	
A. Revised ISAs	16

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Swindon 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 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 Swindon Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

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:

- financial statements (including the Annual Governance Statement) 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.

Significant risks

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

- Management override of controls
- Accounting for the Wichelstowe joint venture
- Property plant and equipment valuation
- Pension liability

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.

Materiality

We have determined planning materiality for the Group to be £10.040m, which equates to 2% of gross expenditure in your 2016/17 accounts. 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 £0.502m being 5% of materiality. In addition we set materiality for the Swindon BC single entity accounts based on 2% gross expenditure. Single entity materiality at the planning stage is set at £9.889m with a triviality level of £0.494m.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM risk:

- Arrangements supporting decision making in relation to the Wichelstowe development

Audit logistics

Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £128,378 (PY: £133,378 for the Council).

Independence

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

Deep business understanding

Changes to service delivery		Changes to financial reporting requirements		Key challenges	
<p>Solar energy</p> <p>The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle.</p> <p>Swindon Borough Council is continuing its work to develop solar energy through the work of its two solar energy companies and Public Power Solutions.</p>	<p>Swindon Programme</p> <p>The Council has an established programme of work to develop services including:</p> <ul style="list-style-type: none"> - actions to manage demand in key areas including social care and waste; - the establishment of a Commercial Investment Strategy Board; - increased challenge when negotiating contracts; and - actions to promote organisational excellence including increased use of IT and enhanced tools for managing performance. 	<p>Accounts and Audit Regulations 2015 (the Regulations)</p> <p>The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p> <p>CIPFA 2017/18 Accounting Code and related guidance</p> <p>Local authorities increasingly are investing through companies. They need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version of which has recently been published.</p> <p>CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities and updates for Leases, Service Concession arrangements and financial instruments.</p>	<p>Housing Revenue Account (HRA)</p> <p>DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which:</p> <ul style="list-style-type: none"> - extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18; and - confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA. 	<p>Financial pressures</p> <p>The Council, in common with the local authority sector continues to face significant financial pressures.</p> <p>In the current year (2017/18) these pressures have been particularly severe in Children's services. The Council plans to invest resources in this service over the next three years to ensure the correct processes and interventions are in place. Overall Council annual spend is currently projected to be £0.5m more than budget.</p> <p>The 2018/19 budget includes planned savings of £10m which have been identified. The following year, 2019/20, is anticipated to require savings of £20m.</p>	<p>Provision of Housing</p> <p>The Council is responding to the need to increase the provision of housing locally through a number of initiatives. These include:</p> <ul style="list-style-type: none"> - the establishment of a Housing Development Company to construct houses on Council land in the Borough. The Company has recently completed its first site delivering seven units. - the establishment of a separate Company to provide units for letting in the private market; and - the recently signed Joint Venture partnership to build 2,700 homes in Wichelstowe.

Our response

- We will consider your arrangements around the Wichelstowe development as part of our work in reaching our Value for Money conclusion as well as ensuring that the joint venture has been correctly accounted for.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments.
- We will follow up on the recommendations we reported in our 2016/17 Audit Findings Report to the September 2017 Audit Committee covering; journal and IT controls, the valuations of property plant and equipment and progress with bringing forward the closure of the accounts.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Swindon Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the 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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.
Wichelstowe Joint Venture development project (Significant risk at financial statement level)	The accounting implications of this deal has been deemed as a significant risk. This reflects the scale and complexity of the Joint Venture in the long term and its unusual nature. We expect recognition of land and financial instruments to both be effected by this transaction.	<p>We will review:</p> <ul style="list-style-type: none"> • the Council's assessment of the accounting treatment taking account of the analysis of the • the impact on the Group Accounts • the accounting for financial instruments • disclosure of property plant and equipment.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment and investment property	<p>The Council re-values its land and buildings on a rolling basis. This represents a significant estimate by management in the financial statements. All material assets are reviewed annually, and all other assets subject to revaluation are valued as least once every 5 years, in line with requirements.</p> <p>Investment property assets are also revalued annually unless there is evidence that there is no material change. The standard requires investment property to be revalued on an annual basis.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work consider the competence, expertise and objectivity of any management experts used. discuss with the Valuer the basis on which the valuation is carried out and challenge of the key assumptions. review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding. test revaluations made during the year to ensure they are input correctly into the Council's asset register evaluate the assumptions made by management for those assets not revalued during the year and consider how management have satisfied themselves that these are not materially different to current value, covering investment and non investment assets.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out undertake procedures to confirm the reasonableness of the actuarial assumptions made. check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration - completeness	<p>Payroll expenditure represents a significant percentage 31% of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with the main ledger there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls • obtain year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to the ledger and through to payroll reports. Investigate significant adjusting items • agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness.
Operating expenses - completeness	<p>Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • obtain a listing from the cash book of non-employee payments made post year and test a sample to ensure that they have been charged to the appropriate year. • review the year-end Accounts Payable reconciliation and investigate any significant reconciling items

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 carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- 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 the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- 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.

Going concern

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). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

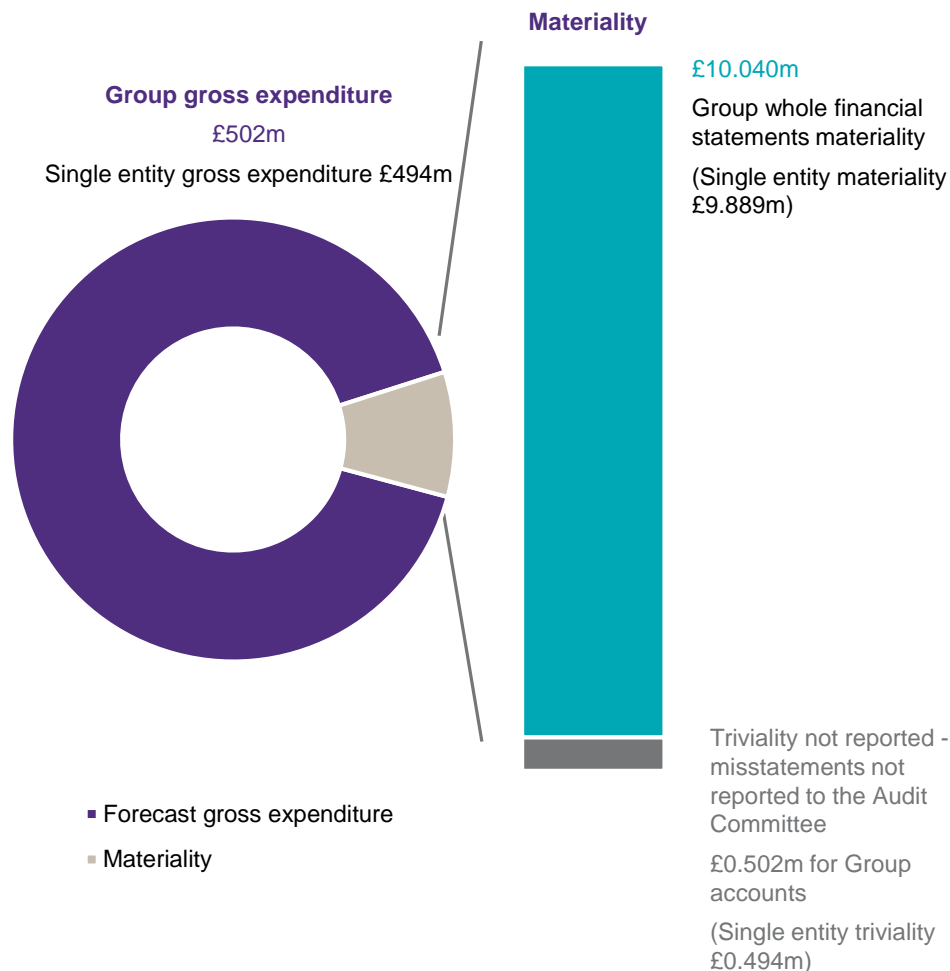
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Group for the financial year. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £10.040m, which equates to 2% of gross expenditure in your 2016/17 Group Accounts. In addition we set materiality for Swindon BC single entity accounts at 2% of 2016/17 gross expenditure, £9.889m. We design our procedures to detect errors in specific accounts at a lower level of precision.

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. We will further consider materiality when you final 2017/18 accounts are published for audit.

Matters we will report to the Audit Committee

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. 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 £0.502m for the Group, £0.494 for the single entity.

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.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The table below sets out our initial assessment of the Council's subsidiaries within the Group requiring audit work and the level of work required. We will up-date this assessment after the year end taking account of the full year level of spend by each subsidiary and developments in this area this year, for example around the Joint Venture for Wichelstowe and the recently established Swindon Housing Company limited.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Public Power Solutions	Yes	Targeted	Revenue recognition	Liaise with Company Auditor review their reports and review accounting policies
Swindon Housing Company Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK
Swindon Common Farm Solar Community Interest Company	No	Analytical	N/A	Desktop review performed by Grant Thornton UK
Swindon Chapel Farm Solar Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK

Key changes within the group:

- Swindon Housing Company Limited is a new company and has a number of subsidiary companies itself.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of PPS auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the PPS auditor audit documentation and meeting with appropriate members of management.

Value for Money arrangements

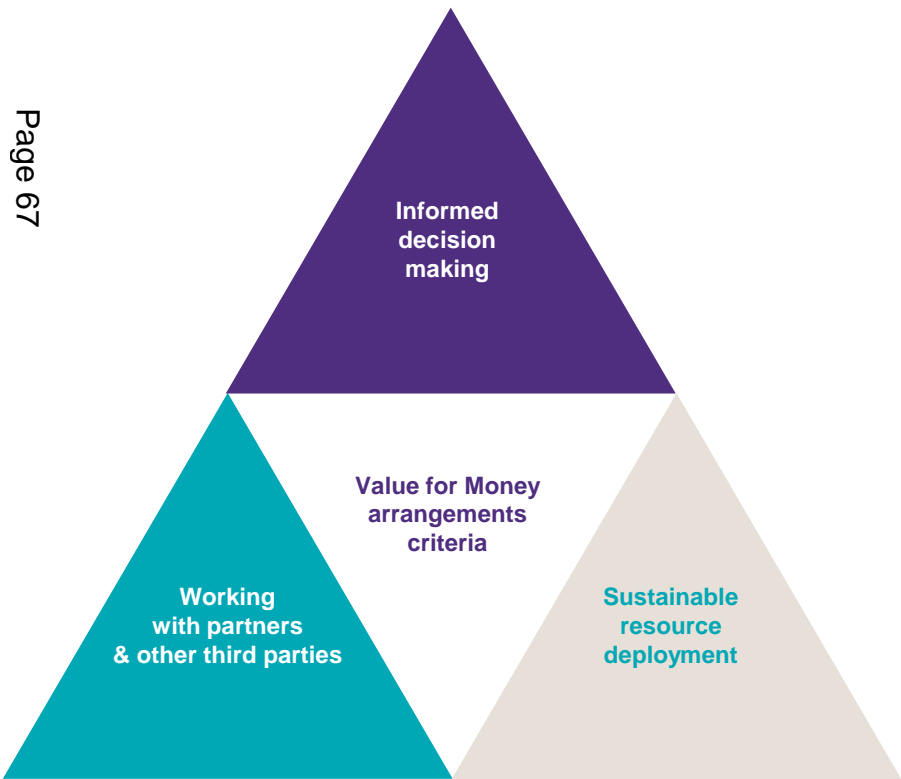
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Arrangements for determining and managing the Wichelstowe development

The Council has recently signed a deal to develop 2,700 housing units on a site to the north of the M4. This is to be delivered through a joint venture with Barratt David Wilson Homes (BDW) where the Council donates the land and BDW provide capital. Profits from the sale of the houses will be shared between the two partners.

This is a complex deal with projected revenues of £678m over a 16 year period. There are detailed arrangements underpinning the agreement including a Board to run the Joint Venture, detailed business plans and models to support decision making.

Our conclusion on the Council's arrangements to provide value for money focuses on the arrangements in place. Specifically with regard to this major project we will review the high level arrangements the Council has established to support the initial decision and to manage the joint venture going forward.

Audit logistics, team & audit fees



Barrie Morris, Engagement Lead

Responsible for overall quality control; accounts opinions; final authorisation of reports; attendance at Audit Committee.



Chris Hackett, Audit Manager

Responsible for the overall management of the audit; consideration of VFM work; quality assurance of audit work and outputs.



Anna McWilliam, Audit Incharge

Responsible for management of audit fieldwork, including accounts; coordination of work completed by audit assistants; coordination of work of specialists and advisors where delegated by the Manager.

Audit Committee Dates

The timing of the Audit Committees in the new Municipal Year, specifically in July and September will be confirmed by the Council in May 2018.

Audit fees

The planned audit fees are no less than £128,378 (PY: £133,378) for the financial statements audit value for money conclusion and £10,476 is the initial estimate for our certification work. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients 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 clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). 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 by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline 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
- 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.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & 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 December 2016 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.

Non-audit services

The following non-audit services were identified/ No non-audit services were identified

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	10,476	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 £10,476 in comparison to the total fee for the audit of £128,378 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 mitigate the perceived self-interest threat to an acceptable level.
Teacher's Pension Return Reporting Accountant's Report	4,200	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 £4,200 in comparison to the total fee for the audit of £128,378 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 mitigate the perceived self-interest threat to an acceptable level.

Independence & non-audit services Continued

Service	Fees £	Threats	Safeguards
Audit related Continued			
Homes and Communities Agency, agreed upon procedures work	2,500	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 £2,500 in comparison to the total fee for the audit of £128,378 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 mitigate the perceived self-interest threat to an acceptable level.
Pooled Capital Receipts Return Agreed upon procedures work	2,200	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 £2,200 in comparison to the total fee for the audit of £128,378 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 mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Non identified	N/A	N/A	N/A

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.

Appendices

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern replaces conclusions relating to going concern when a material uncertainty is identified and disclosed	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



Audit Progress Report and Sector Update

Page 75

Swindon Borough Council
Year ending 31 March 2018

6 March 2018

Agenda Item 8

Contents

Section	Page
Introduction	03
Progress at March 2018	04
Audit Deliverables	05
Results of Interim Audit work completed to date	06
Sector Update	09
Links	14

Introduction



Barrie Morris

Engagement Lead

T 0117 3057708
M 07771 976684
E barrie.morris@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



Chris Hackett

Engagement Manager

T 0117 3057876
M 07880 456130
E chris.i.hackett@uk.gt.com

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



Anna McWilliam

In-charge Accountant

T 0117 3057611
E anna.k.mcwilliam@uk.gt.com

Progress at March 2018

Financial Statements Audit

We have completed our initial planning for the 2017/18 financial statements audit and issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit are summarised at page 6 to 8. Recommendations are included in the action plan at Appendix 1.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 18th June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our initial risk assessment to determine our approach in is summarised in the Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We meet regularly with Officers during the year including twice yearly with the Chief Executive to discuss key issues and high level plan. We meet the Director of Finance and Finance Managers regularly to discuss emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. In February we ran workshops at venues around the Country on financial reporting to support officers preparing the accounts. Officers from Swindon attended the Bristol event. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Issued in February and brought to the March audit committee meeting
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	March 2018	March 2018
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Results of Interim Audit Work completed to date

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
Early substantive testing	<p>We have undertaken early substantive testing in the following areas:</p> <p>Operating Expenses</p> <ul style="list-style-type: none"> Substantive testing of a sample of non-payroll expenditure transactions to period 9 has been completed <p>Other Income</p> <ul style="list-style-type: none"> Substantive testing of a sample of income transactions to period 9 is in progress and will be concluded in March. <p>Asset additions and disposals</p> <ul style="list-style-type: none"> Substantive testing of a sample of capital expenditure and revenue transactions to period 9 is in progress and will be concluded in March <p>Payroll testing – FTE testing</p> <ul style="list-style-type: none"> Substantive testing of a sample of FTE employee data is currently underway and will be concluded over the next week. 	<p>No issues were identified to date from our early substantive testing work.</p> <p>We plan to undertake work on transactions recorded for the remaining months of the financial year during the accounts audit.</p>

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local authority sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

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Internal Audit Plan: 2018/19

Audit Committee

Date: 20th March 2018

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present the draft Internal Audit Annual Plan (2018/19) for approval by the Audit Committee.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 Approve the draft Internal Audit plan for 2018/19 if the Committee is satisfied that it includes all areas where it requires assurance with regards to the Council's Control, Risk and Governance framework.

3. Detail

Legal Framework

- 3.1 Internal Audit is a statutory requirement for local government.
 - (a) Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs. Internal Audit supports the role of the Section 151 Officer by assessing the financial controls of the Council, in particular in relation to the main financial systems and provides assurance to the External Auditor regarding the reliance that can be placed upon these.
 - (b) Section 5 of the Accounts and Audit Regulations 2015 states that 'a *relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*'

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940 nhobbs@swindon.gov.uk.

Internal Audit Plan: 2018/19

Audit Committee

Date: 20th March 2018

- 3.2 These regulations emphasise the much wider role for Internal Audit and the need to consider all internal control arrangements, not just financial, and places more emphasis on the risk management arrangements and the need to consider the key risks to the Council's objectives.

Annual Internal Audit plan 2018/19

- 3.3 The Head of Internal Audit has put together a draft risk-based Internal Audit plan for 2018/19 (see Appendix 1). The plan has been produced on the basis of:
- Ensuring that there is adequate coverage of the Council's governance, risk management and key systems of internal control in order to provide assurance to the Leader and Chief Executive when certifying the Annual Governance Statement, and to the Council's Audit Committee.
 - Ensuring that the Director of Finance's Section 151 (Local Government Act 1972) requirements are met.
 - Ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.
 - Risks identified to the Council meeting its key objectives identified in the Corporate Risk register are covered.
 - The requirements of External Audit, in particular in relation to the audit of the Council's main financial systems.
 - Corporate Director, Director and Heads of Service and Leadership team priorities.
 - Priorities identified by Internal Audit.
 - Additional Corporate Governance issues including anti-fraud and corruption work.
 - Certification work including the Carbon Reduction Commitment Scheme, Troubled Families grant certification audits etc.
 - Priorities identified through the Swindon Programme.
 - A contingency has also been allowed for investigation work, follow-up work and advice and consultancy.
- 3.4 Meetings with the Chief Executive, Corporate Management Team members, tier two officers; key finance staff and the Corporate Planning Lead were held in order to identify their priorities for Internal Audit over the coming financial year. All leadership management teams were also consulted.
- 3.5 Appendix 1 sets out those audits included in the draft audit plan for 2018/19.

Internal Audit Plan: 2018/19

Audit Committee

Date: 20th March 2018

- 3.6 Appendix 2 sets out those audits that had been discussed with Corporate Management Team; leadership teams etc. and have been left out of the plan for 2018/19, as there are insufficient audit resources to cover all these audits; and these areas are considered to be of a lower priority to those included in Appendix 1.
- 3.7 The draft plan and priorities have been agreed by Corporate Management Team.
- 3.8 Audit Committee are therefore requested to agree the Internal Audit plan for 2018/19.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Effective systems of internal control within the Council will help to ensure that the objectives set out in One Swindon are achieved.

Diversity Impact Assessment

- 5.5 None

Risk Management

- 5.6 Not applicable

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940 nhobbs@swindon.gov.uk.

Internal Audit Plan: 2018/19

Audit Committee

Date: 20th March 2018

- 6.2 The Chief Executive, Corporate Management Team, tier two officers, Heads of Finance, and the Corporate Planning Lead have been consulted when putting the internal audit plan together.

7. Background Papers

- 7.1 None

8. Appendices

Appendix 1 – Draft Internal Audit Plan 2018/19

Appendix 2 – Audits left out of the 2018/19 plan

Audit Committee

Draft Internal Audit Plan 2018/19

Nick Hobbs

Head of Internal Audit

20th March 2018

Appendix 1

Corporate Governance

- *Annual Governance Statement*
- *Risk management*
- *Council governance review*
- *Compliance with contract standing orders (follow up)*
- *Swindon Programme work streams*
- *Swindon Programme governance and savings*
- *Information governance*
- *Business continuity*
- *Performance management*
- *Swindon Housing Company*

146 days

Key financial systems and grants

- *Treasury management*
- *Creditors*
- *Main accounting*
- *NNDR*
- *Payroll*
- *Asset management*
- *Carbon reduction commitment grant*
- *Troubled Families grant claims*
- *Bus subsidy operators grant*
- *Disabled facilities grant*

107 days

Contract and Commissioning:

- *Off contract spend*
- *Housing repairs and maintenance*
- *Housing capital programme (follow-up)*
- *New Eastern Villages*
- *Wichelstowe*
- *Domiciliary Care – master vendor contract*
- *Contracts and brokerage (Adults)*
- *Commissioning/mgmt. of prevention services (P/Health)*
- *Commissioning and procurement inflation process*

116 days

Adult Services and Public Health:

- *Shared Lives etc.*
- *Eclipse*
- *OK4U*
- *Newton Europe*
- *Workplace Health (follow-up)*

47 days

Children:

- *Payments (inc. Fostering, Adoption, Special Guardianship Orders and looked after children savings)*
- *Youth Offending Team*
- *Safeguarding in Education*
- *Early Help*
- *Plas Pencelli (follow-up)*
- *Schools (2)*

76 days

Resources and Growth:

- *Organisational excellence*
- *RIPA pre-inspection*
- *Law and Democratic Services – input to service review*
- *FAB Team*
- *Community engagement*
- *Intelligence and insight*
- *Diversity impact assessments*
- *Leavers process*
- *Health and Safety – premises (follow-up)*
- *LEP*
- *Commercial Assets (follow-up)*

105 days

Digital Services and Corporate Prog's:

- *General Data Protection Regulation*
- *Key ICT system controls*
- *Migration back from Capita – Data Centre*
- *Digital Strategy and capacity to deliver*
- *Management of privileged access control*
- *Corporate reporting and data management (follow-up)*
- *Swindon Programme – benefits realization; inflation process; process design*

87 days

Communities and Housing:

- *Stores, Fuel and Enterprise Works*
- *Waterside Depot – security*
- *Transport compliance*
- *Waterside Health and Safety*
- *Street lighting*
- *Members hotline – road safety, traffic management etc.*
- *Highways management inc. Code of Practice*
- *Housing allocations/green light to housing*
- *Sheltered housing*
- *Homelessness*

144 days

External work:

- *St Joseph's Catholic College*
- *Holy Cross Catholic Primary School*
- *St Nicholas Tolentine (Bristol)*
- *Bristol City Council – IT*

98 days

Total days:

	<i>Days</i>
<i>Internal Audit</i>	<i>926</i>
<i>Contingency , investigations etc.</i>	<i>110</i>
<i>Advice, assistance etc.</i>	<i>30</i>
<i>Follow-up audits</i>	<i>30</i>
<i>Total</i>	<i>1096 days</i>

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Internal Audit Plan
2018/19
(DRAFT)

Contents

	Page number
Introduction	2
An outline of the planning process	3
Reasonable Assurance Framework	4
Annual Governance Statement	5
Annual Governance Framework	6
Audit Committee	7
Fraud and Corruption	8
Swindon Internal Audit Services	
1. Audit Charter	9
2. Scope and Service Priorities	9
3. Auditing Standards	10
4. Quality Standards	10
5. Service Output	11
6. Feedback and Performance	12
7. Performance Indicators	13
Allocation of Resources	14
Appendix 1 - Audits included in the 2018/19 Internal Audit Plan	
Appendix 2 - Audits not included in the 2018/19 Internal Audit Plan	

Introduction

Swindon Borough Council, like all organisations providing services to the public, relies on systems that balance flexibility with appropriate internal control in order to manage resources to meet strategic and service objectives, ensuring accountability and minimising the risk of fraud.

The Council has important statutory obligations and is responsible for the proper stewardship of many millions of pounds of public money and must ensure that the highest standards of corporate governance are maintained. Internal Audit help to provide assurances that Council assets and resources are correctly applied and used wisely.

Internal Audit is mandatory in local government. Under the Accounts and Audit Regulations 2015, Section 5, the Council '*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*'

Internal Auditing is defined as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*' (source: Public Sector Internal Audit Standards).

Internal Audit's aim is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the risk management, governance and internal control environment.

The Council's External Auditor examines the work of Internal Audit on an annual basis and seeks to place reliance on that work when they come to audit the Council's financial statement of accounts. The Council's current External Auditors are Grant Thornton.

The standards of auditing which the Council will receive from Internal Audit and associated performance indicators are also outlined in this plan and meet the requirements of the Public Sector Internal Audit Standards.

I would like to take this opportunity to gratefully acknowledge the support received from Members, Audit and Standards Committees, the Chief Executive, Corporate Directors, Director and Heads of Service, their management teams and staff during the preparation of the audit plan and during the course of completing our audit assignments.

An Outline of the Planning Process

The level of Internal Audit resources required to examine all the Council's activities far exceeds those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent, objective assurance function which internal audit provides. Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on the delivery of the Council's objectives. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and dependency which they carry in relation to achievement of the Council's priorities and pledges.

The plan will look to provide reasonable assurance to Audit Committee, Corporate Management Team and other stakeholders regarding all key areas within the Council (see diagram on next page – Reasonable Assurance Framework).

When putting the plan together Internal Audit will take in to account the risk management framework, including risk registers etc. This year's annual plan has again sought to place reliance on the Corporate Risk Register and management's identification of key risks in their areas. As part of the planning process for 2018/19 the Head of Internal Audit met with the Chief Executive, Corporate Directors, Directors, tier two officers as well as key finance staff and the Corporate Planning Lead. These meetings identified management's key priorities and risks for Internal Audit to consider.

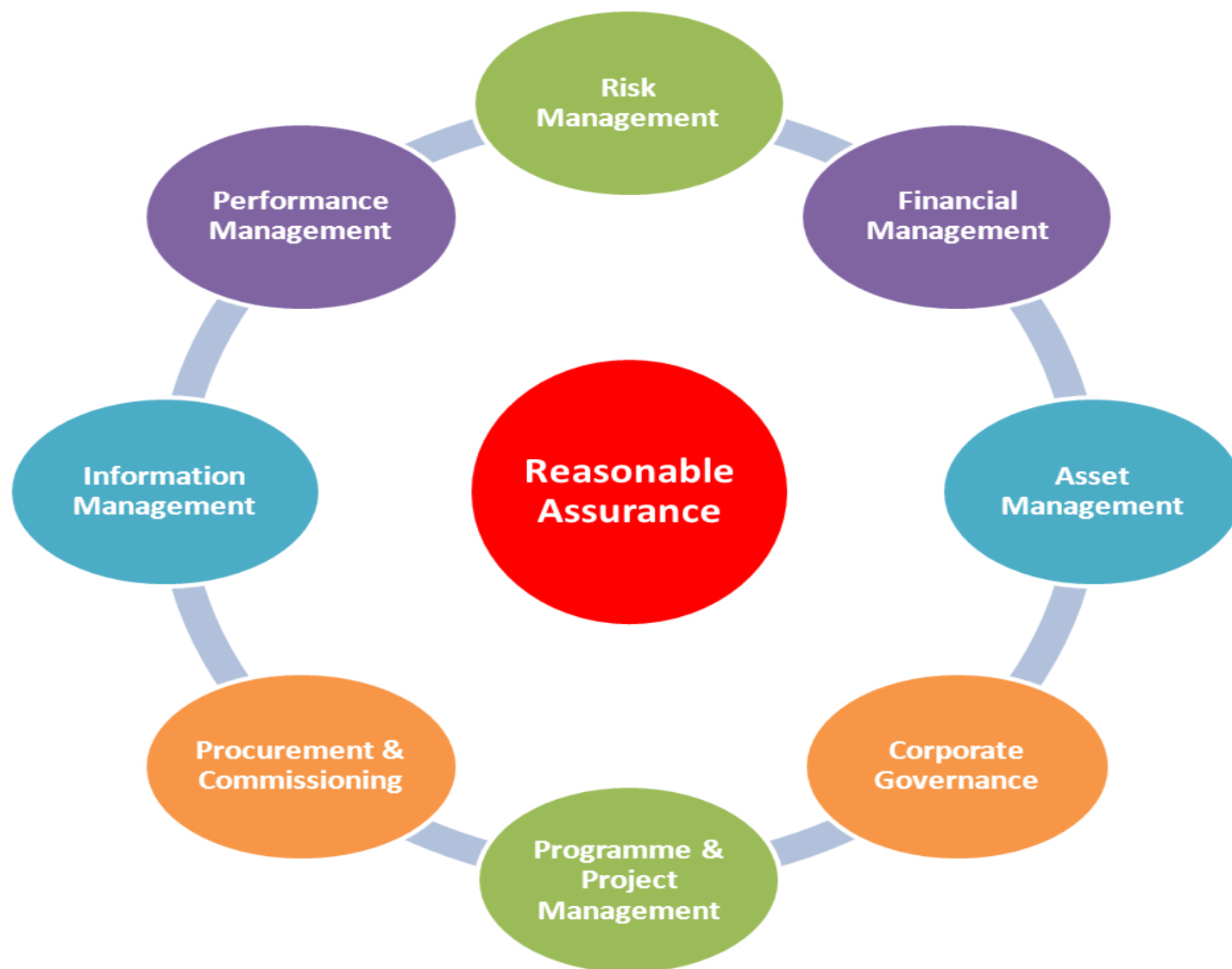
Main Financial Systems: Strong controls in these systems are fundamental to our overall audit opinion. The audit of these systems gives the Council's Section 151 Officer assurance as to whether there are *'arrangements for the proper administration of their financial affairs'*. These systems are covered in some respect every year and include a review of anti-fraud and corruption controls. A cyclical review of these systems, based on a risk assessment, has been agreed with the Director of Finance. The Council's External Auditor will review Internal Audit's work in this area as part of their assessment of the reliability of the Council's financial systems. If no work was carried out in these areas then additional work may be required by External Audit that may result in additional fees being charged to the Council.

Also included in the plan are audits highlighted as priority areas by Internal Audit following previous year reviews i.e. where a significant level of risk had been identified in a key system a follow up audit has been specifically planned; areas identified by colleagues in other councils as a risk; and national issues such as changes in legislation.

Internal Audit will contribute to the Swindon Programme both reviewing governance arrangements, offering a 'critical friend' role and by undertaking specific audits that will assist the programme.

The Internal Audit plan is reviewed regularly by the Head of Internal Audit during the year. He reports progress against the plan quarterly to senior leadership teams. As part of this process he will ensure that audits planned for the next quarter are still a priority and to establish whether there are any emerging risks that require audit attention.

Reasonable Assurance Framework



Annual Governance Statement

The outcome of the audits within this year's plan will inform the Head of Internal Audit's overall opinion on the adequacy of the Council's system of internal control, risk management and governance arrangements. This in turn will feed in to the review of effectiveness of governance arrangements that forms part of the Council's Annual Governance Statement.

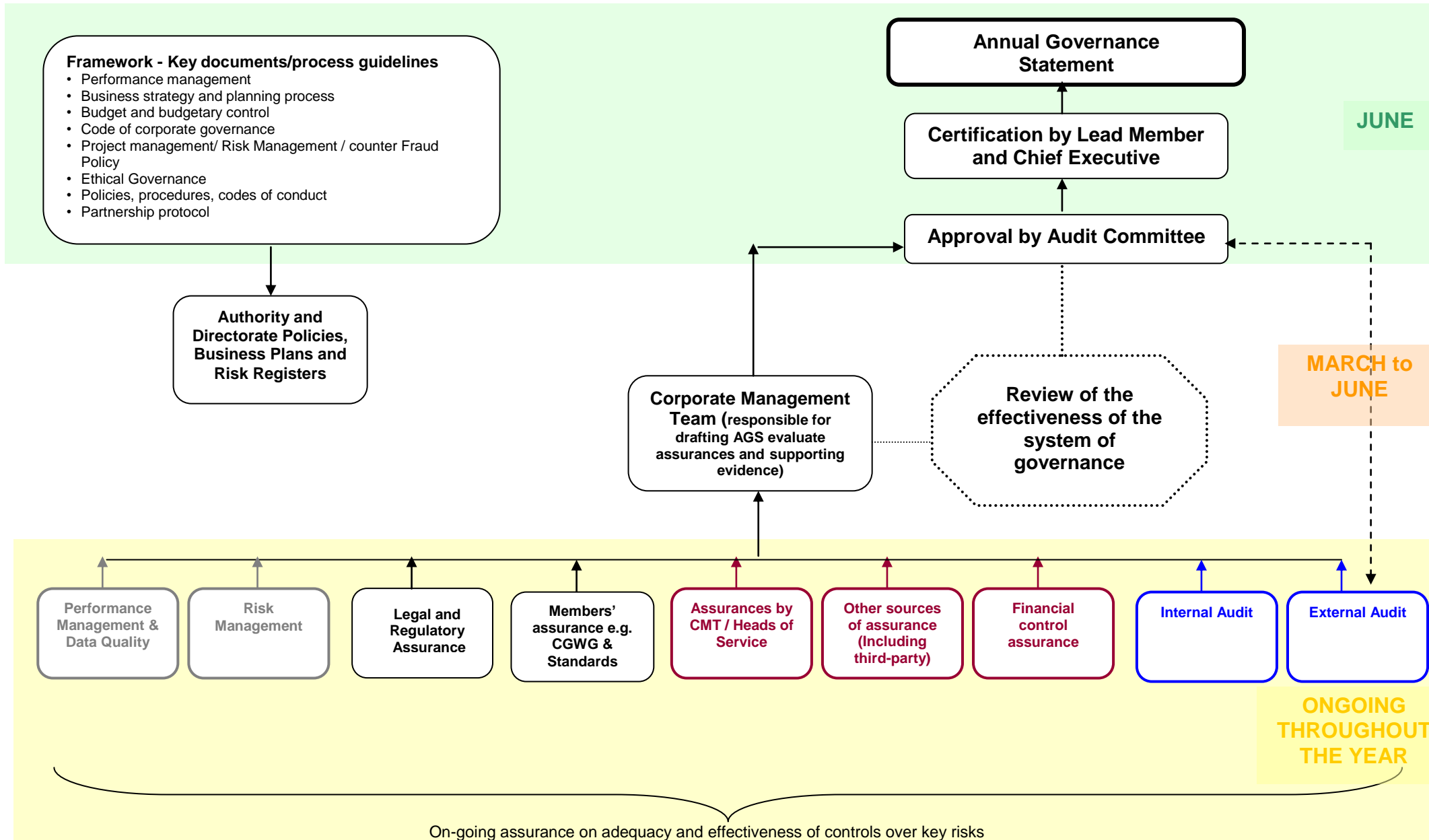
Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework (see copy of the framework on page 6).

The Accounts and Audit Regulations 2015 for local government bodies in England require an Annual Governance Statement (AGS) to be prepared. The AGS is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - the authority
 - the executive
 - the audit committee/overview and scrutiny function/risk management committee/standards committee
 - internal audit
 - other explicit review/assurance mechanisms
- An outline of the actions taken, or proposed to deal with significant governance issues, including an agreed action plan.

The AGS must be seen as a Council wide document and not just the responsibility of the S.151 Officer or Head of Internal Audit. Corporate Board agrees the AGS before being reviewed and approved by the Audit Committee. The Leader of the Council and the Chief Executive will sign off the AGS, which is then published with the Council's statement of accounts.

ANNUAL GOVERNANCE STATEMENT FRAMEWORK (FLOWCHART)



Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's governance arrangements, management of risk, maintenance of an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the Committee as to whether controls are operating effectively. Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and process for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective Audit Committee helps to convey to staff and to the public the importance Members and Officers attach to internal control.

Page 115 The Council has adopted best practice in implementing an Audit Committee. Members promote the need for internal control and risk management. Members of Corporate Management Team, Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations, thereby helping to raise the profile of the work of Internal Audit.

The Committee has also agreed a set of terms of reference that encompass the latest guidance issued by CIPFA in their publication, *Audit Committees – Practical Guidance for Local Authorities and Police – 2013*.

The Audit Committee's terms of reference set out the following core functions of the Audit Committee:

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- Oversee Internal Audit's independence, objectivity, performance and professionalism; support the effectiveness of the internal audit process and promote the effective use of Internal Audit within the assurance framework.
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to fraud and corruption.
- Consider the reports and recommendations of Internal Audit, External Audit and inspection agencies and their implications for governance, risk management or control.
- Review the Council's financial statements, the External Auditor's opinion and report to members, and monitor management action in response to the issues raised.
- Review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

- Advise upon and/or review the effectiveness of any other matters referred to the Audit Committee by the Cabinet, the Overview and Scrutiny, Regulatory Committees or the Head of Internal Audit.

Fraud and Corruption

Unfortunately, fraud and corruption is an increasing feature nationally. Responsibility for prevention and detection rests with management but Internal Audit will identify high-risk areas, test for the existence of fraud and recommend improved internal controls where necessary.

Internal Audit will promote an anti-fraud culture and encourage staff to raise legitimate concerns with the confidence that they will be thoroughly investigated. Information on frauds elsewhere will continue to be widely disseminated and audit staff will consider whether procedures are operating which would prevent these particular activities occurring in this Council. A Fraud Bulletin that provides details of recent frauds and scams that have been committed in both the public and private sector is produced on a regular basis and distributed to all staff.

Swindon Internal Audit Services will make use of computer audit techniques to compare and test data across different systems, as well as co-ordinating involvement in national data matching exercises enabling the Council to identify and tackle any potential fraud.

Page 116

Internal Audit also operates the Council's Whistleblowing procedure in conjunction with the Director of Law and Democratic Services. A confidential phone/fax line is provided. Any calls received are reported to the Director of Law and Democratic Services who then appoints an investigating officer to investigate the allegations made. This will normally be Internal Audit.

The results of any investigation are reported to the Head of Service along with any other relevant officer i.e. Corporate Director etc. The details of any person using the whistleblowing service are kept confidential as far as possible, unless the nature of the call is found to be malicious etc. where separate disciplinary action may be taken.

Summaries of investigations are provided to the Council's Standards Committee who also has responsibility for approving the Council's Anti-Fraud and Corruption Strategy (including the Whistleblowing Policy).

Internal Audit have compiled a Fraud Response plan that sets out what managers/employees should do if they become aware of a potential fraud. Internal Audit has also prepared a Fraud Awareness Guide for managers.

Areas particularly susceptible to fraud are identified by:

- Reviewing publications such as the Audit Commission's '*Protecting the Public Purse*' and their '*National Fraud Initiative National Report*' that indicated areas of actual and potential fraud.
- Discussions with Heads of Service
- Previous audits / experience
- Information exchanged with colleagues from other local authorities i.e. at the West of England Fraud sub-group.
- Fraud Awareness bulletins issued by the National Anti-Fraud Network (NAFN)

These areas are then considered for inclusion in the audit plan. Time is also included for ad-hoc-fraud investigations.

Corporate Fraud Team

Internal Audit was successful in bidding for Counter Fraud funding from the Government. This funding enabled the setting up of a Corporate Fraud Team with the appointment of two officers, a Corporate Fraud Investigator and a Corporate Fraud Intelligence Officer. The initial grant funding ran until March 2016 but additional funding has been gained from the Housing Revenue Account since 2016/17.

The main focus of the Corporate Fraud team is on external fraud committed against the Council. Areas of focus during 2018/19 will include:

- Housing tenancy fraud
- Right to buy applications

A business case has also been agreed whereby funding has been received to target potential Council Tax single person discount fraud. Two additional members of staff (1.6 FTE) have been employed to target fraud in this area using data matching and information regarding credit history, etc.

Swindon Internal Audit Services

1. Audit Charter

The Internal Audit Charter, approved by Audit Committee, defines the purpose, authority and responsibility of Internal Audit within Swindon Borough Council and outlines the scope of Internal Audit's work. The Charter also covers the following areas:

- Role
- Professionalism
- Accountability
- Responsibility of statutory officers
- Independence and objectivity
- Internal Audit plan and resource
- Reporting and monitoring
- Periodic assessment and approval

2. Scope and Service Priorities

The scope of the internal audit function covers the entire internal control system of Swindon Borough Council, including its risk management and governance arrangements. Our audit reviews can therefore cover all financial and non-financial activities of the Council. These reviews advise and support the:

(a) Audit Committee in discharging its responsibilities for:

- advising on the adequacy and effectiveness of the Authority's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2015;

- supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit;
- Monitoring the adequacy and effectiveness of the Internal Audit Service and Directors' responsibility for ensuring an adequate control environment.

(b) Leader and Chief Executive in their annual certification of the Annual Governance Statement.

(c) Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.

The Council's own corporate risk register supported by individual Pillar risk registers drives a large part of the annual audit plan.

We will also carry out audits of the Council's main financial systems to provide assurance to the Council's S.151 Officer that arrangements are in place for the proper administration of the Council's financial affairs and help to promote an anti-fraud and corruption culture by targeting areas of high risk of fraud, investigating suspected cases of fraud/irregularity and being the main contact for the Council's whistleblowing hotline.

3. Auditing Standards

The Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors International Professional Practice Framework, as follows:

- Definition of Internal Auditing
- Code of Ethics
 - Integrity; Objectivity; Confidentiality; Competency
- International Standards for the Professional Practice of Internal Auditing
 - Purpose, authority and responsibility; Independence and objectivity; Proficiency and due professional care; Quality assurance and improvement programme; Managing the Internal Audit activity; Nature of work; Engagement planning; Performing the engagement; Communicating the results; Monitoring progress

Swindon Internal Audit Services applies the above standards providing a quality, professional, internal audit and management review service which helps the Council discharge its statutory duties regarding accountability, risk management, securing value for money and the application of high standards of governance in the stewardship of public funds.

Adopting a constructive and supportive approach, working in partnership with officers throughout the Council, Swindon Internal Audit Services also promote good management practice and helps ensure that the Council's corporate policies and objectives are being realised.

4. Quality Standards

Swindon Internal Audit Services will:

- Undertake audit assignments with competence, diligence, integrity and objectivity utilising skills and judgement developed through experience and training.
- Act impartially and objectively to provide a reliable opinion, pursuing all issues either reported or found.
- Encourage approaches from Members and employees regarding any matters of concern, or simply to obtain advice and assistance.
- Fully involve Services in order to develop dynamic strategic and operational plans that are relevant to their needs and recognise service priorities.
- Plan and conduct our assignments in accordance with auditing standards.
- Fully brief Managers, prior to commencing each audit review, concerning the objectives and scope of the work and invite them to identify particular matters that would benefit from an independent evaluation.
- Adopt a risk-based approach.
- Emphasise the positive as well as where improvements can be made and take account of the culture of Services, available resources and possible constraints when making recommendations. Fully discuss findings with Managers concerned and issue draft reports on major audit assignments.
- Reach agreement on recommendations and how they can be implemented.
- Include an action plan in all reports incorporating agreed implementation dates for the recommendations made.
- Review the successful implementation of recommendations.
- Deal with enquiries concerning suspected fraud or malpractice immediately.
- Staff the office within the Council's normal working hours, answering telephone calls within four rings.
- Work closely with the External Auditor to eliminate any duplication of effort and ensure a cost-effective audit process.
- Constantly monitor and communicate standards of good practice.
- Treat all information gathered with the utmost confidentiality.
- Be polite, courteous, helpful and understanding in the approach adopted.
- Commit to Health and Safety, Equal Opportunities, Sustainability and other policies of the Council.

5. Service Outputs

For planned work service outputs are:

Detailed reports arising from reviews of the whole system of internal control, financial and otherwise, containing recommendations which help to:

- Develop and improve key management, financial and information systems

- Review performance
- Ensure adherence to legislative requirements, management policies and directives
- Add value
- Identify saving opportunities and more efficient processes
- Provide examples of best practice
- Safeguard assets
- Ensure completeness and accuracy of records
- Secure effectiveness, economy and efficiency in the use of resources
- Ensure the reliability and integrity of information

For irregularity work service outputs are:

Comprehensive fraud prevention measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds. In particular, this involves:

- Monitoring compliance with Standing Orders and Financial Regulations
- Coordinating corporate fraud prevention action
- Investigating reported irregularities and supporting any Police enquiries
- Coordinating participation in local and national anti-fraud initiatives
- Providing immediate notification of frauds reported elsewhere together with advice on avoidance measures
- Raising fraud awareness, providing anti-fraud training

For unplanned, ad hoc, work service outputs are:

Advice and assistance during the development of current corporate initiatives.

Other general advice and assistance to officers throughout the Council regarding best management practice, probity issues, system development and internal control. Points of practice are communicated to Members and Service Managers through the issue of reports and notification of work carried out by the Audit Commission, External Audit and other Government Agencies that may help them improve the services they provide.

6. *Feedback and Performance Measurement*

The opinion of Members, managers and staff is highly valued as it enables the Service to maintain high standards and quickly respond to changing client needs. Opportunities for feedback are provided through regular meetings with Senior Management teams, 1:1's between the Head of Internal Audit and both the Council's Monitoring Officers and Section 151 Officer, relevant Finance Managers and the issue of

Customer Feedback Forms that accompany final audit reports. These forms provide a means for clients to make constructive comments on the services received.

Feedback is also welcomed directly to the Head of Internal Audit regarding any audit work that has been completed, is in progress or is planned. We are also keen to assist where possible with queries regarding internal control issues and react to changes in priorities and reacting to requests for audits in areas where there are new or increased risk.

7. *Performance Indicators*

The section has three key performance indicators. These are:

- Overall completion of the number of audits in the audit plan: Target 90%
- Completion of the key audits: Target: 100%.
- Customer Satisfaction Feedback: Target of at least 86% of clients scoring the audit as 'Good' or 'Excellent'.

Performance against these targets is reported to each meeting of the Council's Audit Committee and included in the Head of Internal Audit's Annual report.

Allocation of Resources

The annual audit plan for 2018/19 has been drafted on the basis of current planned available days within the section. The plan was produced on the basis of the requirements of meeting the Director of Finance' Section 151 responsibilities, the requirements of External Audit, key risk areas identified by individual Corporate Directors, Heads of Service and Internal Audit reviews.

Not all issues/areas raised by management and Internal Audit have been included in the plan due to the level of audit resources available. These audits were discussed with both Corporate Management Team and Audit Committee and management were prepared to bear the risk and not increase the audit resource to meet the additional requirement. Therefore, the annual audit plan had to be trimmed so that it could be delivered from existing current resources. The reduction in the audits was in agreement with Corporate Management Team, the Director of Finance and the Audit Committee – those audits that were considered to be of a lower risk were removed from the plan.

The detail of our allocation of resources is shown in Appendix 1 attached. However, it should be noted that the plan is flexible enough to consider new areas of significant risk that occur during the course of the year. External Audit has stated that they are happy for the plan to be changed to reflect an increased risk in a particular area as long as it can be properly justified.

Individual audits will be allocated from the annual plan on the basis of matching the auditor's expertise and experience to the assignment requirements. Currently the section has both Information Technology and Contract specialists in the section if an additional specialist resource was required to complete an assignment this would be discussed with the relevant manager(s).

Internal Audit obtains assurance from other assurance providers within the Council i.e. Health and Safety, Risk Management etc. when developing the audit plan and carrying out individual assignments.

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Audit Committee

Internal Audits not included in the 2018/19 plan

Nick Hobbs
Head of Internal Audit
20th March 2018

Appendix 2

Internal Audits not included:

- *Housing Benefits*
- *Council Tax*
- *Debtors*
- *Payroll: main system review*
- *Payroll: Starters process*
- *Organisational excellence – income review*
- *Asset Management*
- *Forward Swindon*
- *Highways and Transport – resources for growth*

Internal Audits not included cont.

- *Community Safety partnership*
- *Deprivation of liberty*
- *School funding*
- *External placements (Children)*
- *Schools (2)*
- *Child Sexual Exploitation (follow-up)*
- *Recourse to public funds*
- *Housing rents*
- *SMAG*

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Head of Internal Audit Update

Audit Committee

Date: 20 March 2018

Author: Head of Internal Audit

Wards: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in February 2018, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that Audit Committee note the report.

3. Detail

Progress on completion of Internal Audit Plan 2017/18

- 3.1 Details of audits finalised since the February Audit Committee meeting are set out in Appendix 1. The appendix sets out the key audit recommendations made along with the overall risk assessment to the Council.
- 3.2 Appendix 2 sets out progress against the 2017/18 plan. As at the end of January 2018, 81% of the number of audits in the audit plan has been completed against a target of 85%.
- 3.3 Customer Feedback forms returned during 2017/18 indicate that 89% of clients felt that the audit was good to excellent, the remaining 11% ranked the audit good to average.

Corporate Fraud Team

- 3.4 **So far in 2017/18 the Corporate Fraud Team has received a total of 259 referrals. To the 14th February 2018, the team has:**

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Update

Audit Committee

Date: 20 March 2018

- Recovered 16 housing properties (estimated savings £288,000)
- Stopped 4 fraudulent right to buy applications (discount saved of £298,643)
- Additional Bills Raised £15,267.47 (£11,214.82 relating to HB)

4. Alternative Options

4.1 Not applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Diversity Impact Assessment

5.4 None

Risk Management

5.5 Potential risks to the Council are identified in the individual audit reports summarised in Appendices 1 and 2.

6. Consultees

6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1: Internal Audit Reports finalised since the February 2018 Audit Committee.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Update

Audit Committee

Date: 20 March 2018

8.2 Appendix 2: Progress against the Internal Audit plan 2017/18

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Audits completed since the previous Audit Committee meeting (February 2018)

Audit Title:	General Data Protection Regulations (GDPR) Readiness						
Date of Report:	February 2018				Materiality/Impact:		High
Number of 'High Priority' Recommendations:	3	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	No opinion given
<u>Key Recommendations</u> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> • Work to map the Council's data and identify the gaps between the current state and that required for GDPR compliance for each service should be completed as soon as possible in order to plan the implementation work. This should be used to identify the highest risk areas where non-compliance could result in a breach and possible fine. The results of the gap analysis should be presented to the Information Governance Board, Corporate Management Team and other relevant officers in order for a decision on the prioritisation of work and timescales for completion can be taken. • The communication to staff on the implications of the GDPR and the compliance work should include Corporate Management Team support to help get sufficient buy in from across the organisation to achieve compliance and ensure continued compliance in the future. Corporate Management Team should work with the Information Governance Board to confirm there will be sufficient resource available to deliver the GDPR compliance project and to resource roles required in service areas on an ongoing basis in relation to data protection. • Project delivery should be supported by introduction of proportionate project management methodology. A governance structure should be specified. Relevant project management documentation such as risk assessments, and plans should be put into place to ensure that the project can be adequately managed to enable completion within desired timescales. 							

Audit Title:	Main Accounting (Part 1: Bank reconciliations and Closedown timetable)						
Date of Report:	1 st February 2018			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	1	Previous Audit Opinion:	2	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> There were no key recommendations as a result of this review.							

Audit Title:	Debtors						
Date of Report:	23 rd January 2018			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	2	Previous Audit Opinion:	2	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> There are no key recommendations made as a result of the review.							

Audit Title:	Waste Services Contract						
Date of Report:	January 2018			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	5	Current Audit Opinion:	3	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	Moderate

Key Recommendations

The key recommendations made as a result of the review are:

- The Council's Municipal Waste Strategy should be reviewed and updated to set out the Council's vision and targets for waste and recycling. A golden thread should exist between the Strategy, the business plan, waste services contract and performance management arrangements to help ensure the Council achieves its objectives.
- The additional clauses in Appendix A should be reviewed and given consideration to including in the Council's waste services contract to improve its effectiveness in protecting the Council's interests.
- The contract should include a set of performance requirements and a performance framework, linked to the Waste Strategy and the service's annual business plan. This should set out how performance will be measured and monitored, and what the consequences of any failures e.g. financial penalties/deductions etc. The roles and responsibilities for reviewing performance data provided by PPS will then need to be defined.
- For contract requirements not linked to the performance framework, PPS should be required to provide regular assurance, e.g. quarterly, to the Council that these are being met.
- As part of the contract management arrangements, formal assurance should be regularly e.g. annually, sought on PPS' financial sustainability and therefore its ability to continue to deliver the services under the contract.

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Key Audits Completed (Audits) - Draft - Total 36

	April	May	June	July	August	September	October	November	December	January	February	March
Key Audits Completed												
	Library evaluation	Corporate Reporting	Asset management-valuation	Compliance with Standing orders	New Eastern Villages	Main accounting I	Debtors	Treasury Management	Commercialisation	Main Accounting II	Creditors	
		Risk management	Annual Governance Statement		Housing Benefits	Corporate manslaughter				GDPR	Business Continuity	
		Performance Framework			Building - Statutory Compliance					Adult Safeguarding		
Key audits Month Total	1	3	2	1	3	2	1	1	1	3	2	0
Key audits Cumulative Total	1	4	6	7	10	12	13	14	15	18	20	20
Key audits Target %	5	8	12	20	25	30	50	60	70	80	90	100
Key audits Achieved %	3%	11%	17%	19%	28%	33%	36%	39%	42%	50%	56%	56%

Total other Audits Completed - Draft (54)

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued												
	Workplace Health	Improvement Grants	Security: Civic Campus	Management of Capital projects	Homelessness	NNDR 3 claim	Care Leavers	HB Cheques	Troubled Families (12/17)	Debtors Recovery	WB 17/18-13	
	Public Health Grant	Plas Pencelli	Organised crime checklist	Modern Slavery and Human Trafficking	Patch Management	WB 17/18-6	Troubled Families (10/17)		HR Support: Schools	Newton Europe	Commercial Assets (update)lo	
	NFI	Inv 17/18-1	Managed accounts: DHI	Carbon Reduction Commitment Grant	Children legal costs	STEAM	Nursery Funding			Whitbourne House	Phones	
	Housing for vulnerable people	Duplicate Payments	Voluntary Sector Organisation – Supported Employment		SENRAP	Inv 17/18-1	Transport inv			Crematorium and Cemeteries	Greensquare	
		Section 151 & HoIA responsibilities	Inv 17/18-2		W/B 17/18-1	PPS Waste Service	Inv 17/18-7			Premises Management		
					Parking Enforcement	Starters & leavers asset management	Capital Projects: financial contingency			Lawn Primary School		
					Inv 17/18-3	WB 15/16-3	OSC: Use of Social Media			Staff Training		
							Bus Subsidy Grant					
Other audits total for month	4	5	5	3	7	7	8	1	2	7	4	0
Cumulative other audits	4	9	14	17	24	31	39	40	42	49	53	53

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	5	8	7	4	10	9	9	2	3	10	6	0
Overall Total Audits	5	13	20	24	34	43	52	54	57	67	73	73
Target Completion of Plan %	8	16	24	32	40	48	56	64	72	78	85	92
Audit Plan Achievement %	6%	14%	22%	27%	38%	48%	58%	60%	63%	74%	81%	81%

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