

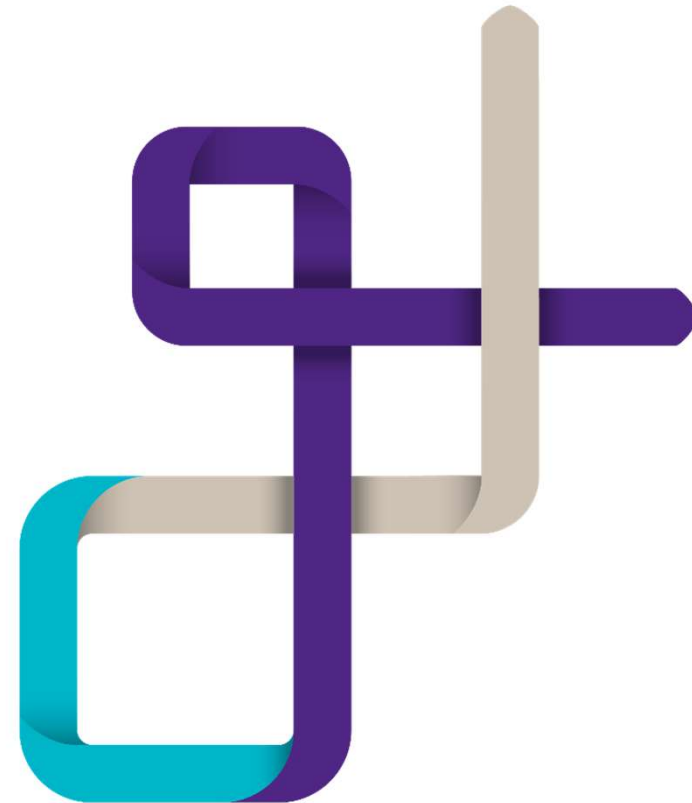


# Audit Findings

*Year ending 31 March 2018*

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Swindon Borough Council  
23 July 2018



# Contents



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## Section

Section	Page
1. Headlines	3
2. Financial statements	4
3. Other statutory powers and duties	13
4. Value for money	14
5. Independence and ethics	18

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Swindon Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the group and Council's financial statements give a true and fair view of the group and Council's financial position and of the group and group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June/July. Our findings are summarised on pages 4 to 13. Our work has identified a £13,446k increase to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Swindon Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group and Council's business and is risk based, and in particular included:

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018. These outstanding items include:

- Review of the PFI scheme
- Review of the Group Accounts
- Confirmation of the correct treatment of the general fund depreciation movements
- Review of the Statement of Cash flows
- Review of the Better Care Fund note
- Testing of a selection of journal entries
- Debt confirmation to be received from Royal Borough of Kensington and Chelsea
- Final review of the Movement in Reserves Statement
- Review of the financial instruments disclosure
- Review of amendments to the draft accounts
- Work around the Welfare Benefit modules
- Receipt of management's going concern assessment
- Receipt of management representation letter
- Review of the final set of financial statements

# Summary (continued)

## Our approach to materiality

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

The qualitative factors used to inform the materiality assessment were agreed by the audit team as part of the planning for the 2017/18 audit.

Materiality calculations have been adjusted to reflect the final set of financial statements received on 30 May 2018. We detail in the table below our assessment of materiality for Swindon Borough Council.

	Council Amount (£,000)	Group amount (£,000)	Qualitative factors considered
Materiality for the financial statements	£9,889k	£10,040k	<p>We have based our materiality calculation at 2% of your forecast gross expenditure, having taken account of:</p> <ul style="list-style-type: none"> <li>• The Council operates in a relatively stable, publicly funded business environment;</li> <li>• It's operations are less complex and only a few core business processes are in place; and</li> <li>• the services are all publicly funded.</li> </ul>
Performance materiality (Tolerable Error)	£5,934k	£6,024k	<p>Performance materiality has been set at 60% of materiality as a result of:</p> <ul style="list-style-type: none"> <li>• A history of a large number of presentational errors in the accounts;</li> <li>• It is noted that there is an earlier statutory reporting date this year. In the 2016/17 year the council made good progress bringing work forward. However, it was determined that more needed to be done in the 2017/18 close down process to ensure that the earlier statutory reporting deadline was met.</li> <li>• Large errors were found in the 2015/16 statement of accounts, and 1 large error was found in the 2016/17 statement of accounts. These errors were above TE and were in line items which sit on the face of the balance sheet.</li> </ul>
Trivial matters	£494k	£502k	<p>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>
Materiality for specific transactions, balances or disclosures			<p>We design our procedures to detect errors in specific accounts at a lower level of precision. We have not identified the following items where separate materiality levels are appropriate:</p> <ul style="list-style-type: none"> <li>• Senior Officers remuneration report – we will review all disclosures in excess of £20,000</li> </ul>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Improper revenue recognition</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Swindon Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Swindon Borough Council.</p>
<p><b>2 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>• Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness;</li> <li>• Evaluate the rationale for any changes in accounting policies or significant unusual transactions;</li> <li>• Carried out a review of accounting estimates, judgements and decisions made by management; and</li> <li>• Reviewed any unusual significant transactions</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>Tested revaluations made during the year to ensure they were input correctly into the Council's asset register.</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul> <p>The Council has not correctly accounted for depreciation for those assets revalued in the year. The accumulated brought forward balance for depreciation should be written back to the revaluation reserve for those assets revalued. This has impacted on the Authority's accounts in both 2017-18 and 2016-17, which has necessitated a prior period adjustment and a third Balance Sheet.</p> <p>The amount written back to the revaluation reserve in 2017-18 in respect of council dwellings also needed to be amended to reflect the change in valuation date to 31 December 2017. This also meant that the amount of accumulated depreciation carried forward to 2018-19 needed to be reduced to reflect that only three months of the annual charge should be included.</p>
<p><b>4 Valuation of pension fund net liability</b></p> <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><b>Auditor commentary</b></p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;</li> <li>Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li> <li>Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul> <p>Our audit work has not identified any issues in respect of the pension fund net liability.</p>

# Significant audit risks

Risks identified in our Audit Plan		Commentary
5	<b>Wichelstowe Joint Venture development project (Significant risk at financial statement level)</b>  The scale and complexity of the Joint Venture in the long term and its unusual nature potentially poses a significant risk. We expect recognition of land and financial instruments to both be effected by this.	<p>We have undertaken the following work in relation to this risk:</p> <p>Reviewed the Council's assessment of the accounting treatment taking account the analysis of the:</p> <ul style="list-style-type: none"><li>• impact on the Group Accounts</li><li>• the accounting for financial instruments</li><li>• disclosure of property, plant and equipment.</li></ul> <p>Although the Company has been created, no transactions have taken place in the 2017/18 Financial Statements. Therefore the risk has not materialised.</p> <p>We have discussed the impact of the contract and the accounting for transactions between the Council and the company have taken place.</p> <p>In future years officers will need consider the accounting entries for the transfer of land and also the basis of consolidation within the group accounts.</p> <p>We have nothing to report on this issue.</p>



# Reasonably possible audit risks




Risks identified in our Audit Plan	Commentary
<p><b>1 Employee remuneration</b></p> <p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions 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><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Agreed the year-end payroll reconciliation and ensured amount in accounts can be reconciled to the ledger and through to payroll reports.</li> <li>• Agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.</li> </ul> <p>Our audit work has not identified any issues in respect of employee remuneration.</p>
<p><b>2 Operating expenses</b></p> <p>Non-pay expenses on other goods and services also represents a significant percentage 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><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;</li> <li>• Documented the accruals process and the controls management have put in place. Challenged key underlying assumptions, the appropriateness of the source of data used and the basis for calculations.</li> <li>• Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period.</li> </ul> <p>Our audit work has not identified any issues in respect of operating expenses.</p>

# Significant matters discussed with management




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

Significant matter		Commentary	Auditor view
1	<b>Going concern</b>		
	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.	<p>Our going concern review has been concluded, and we agree with management that the going concern basis for the preparation of the financial statements is appropriate..</p> <p>In only exceptional circumstances would we expect a local authority not to prepare its accounts on a going concern basis as it requires primary legislation to dissolve a local authority.</p>	The preparation of the financial statements on a going concern basis is appropriate.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.  There is a separate policy for NNDR and Council Tax as well as general revenue.	The various accounting policies are considered to be reasonable and in line with the CIPFA Code.	 <b>Green</b>
<b>Judgements and estimates</b>	Key estimates and judgements include : <ul style="list-style-type: none"> <li>• Revaluations</li> <li>• Impairments</li> <li>• Accruals</li> <li>• Valuation of pension fund net liability</li> </ul>	Our conclusions on the valuation of property, plant and equipment and the pension fund net liability are set out on page 7.  Other estimates and judgements have been considered in the audit process, and no issues have been identified.	 <b>Green</b>
<b>Other critical policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
①	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
②	<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③	<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work
④	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
⑤	<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the bodies with which the Council hold investment, cash and debt balances . This permission was granted and the requests were sent. We are still waiting on a response for 1 of the debt confirmation letters which were sent out. The entity that haven't yet responded is Royal Borough of Kensington and Chelsea.
⑥	<b>Disclosures</b>	A number of disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report.
⑦	<b>Audit evidence and explanations</b>	All information and explanations requested from management was provided.
⑧	<b>Significant difficulties</b>	We did not experience any significant difficulties during the course of the audit.

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>Minor amendments and improvements have been identified but have been adequately rectified by management.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>We note that the work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Swindon Borough Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

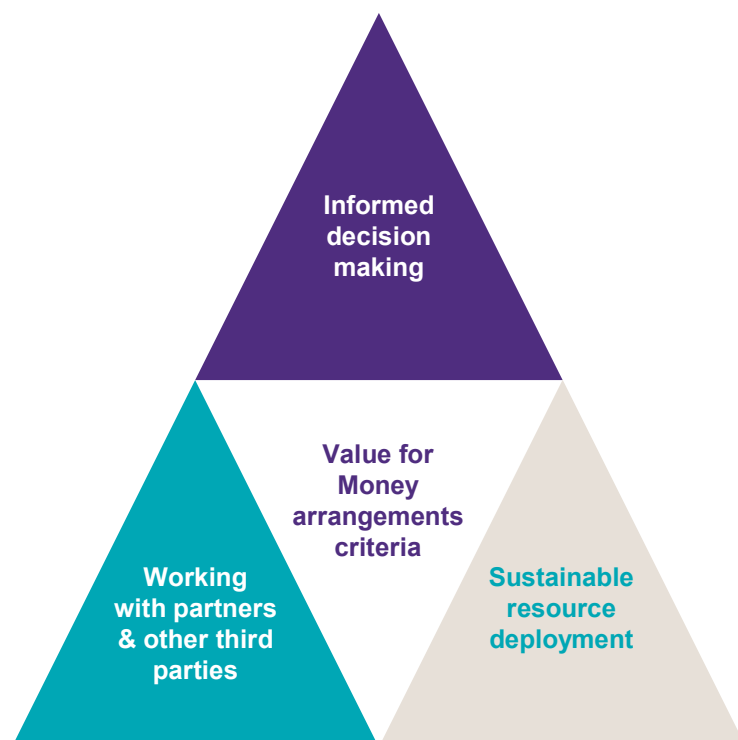
## Background to our VFM approach

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:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified one risk, as set out below, of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 6 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.



### 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) wherein the Council donates the land and BDW provide capital. Profits from the sale of 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.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The arrangements the Council has established to progress its plans to develop land at Wichelstowe through a joint venture with a private sector partner. This focussed on key controls for managing the process.
- As part of our on-going risk assessment we also had regard to other key areas of arrangements including those arrangements for financial planning.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on pages 16 to 17.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows.

- Strengthening arrangements for the appointment of consultants. The Council was not able to evidence the process for appointing the consultant who reviewed the Wichelstowe financial model. This appointment was made under the direction of the former Chief Executive of Forward Swindon Limited. The Council Corporate Director of Resources & Growth has taken steps to tighten arrangements for the engagement of such consultants.
- Ensuring there is sufficient capacity to monitor closely the development of the site and identify early any changes that might impact on the delivery of receipts from the Joint Venture.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

### Significant risk from the audit plan

#### 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 work and Findings

To ensure our work was focussed on our responsibilities to review the Council's arrangements for ensuring value for money, we identified key areas to consider. Specifically we considered your arrangements for:

- **Ensuring informed decision making;** we considered reports to Members, minutes of meetings and presentations. We considered the due diligence the Council undertook on key aspects of the project such as the financial model. We reviewed the risk register and considered risk management arrangements and we considered the work of consultants employed by the Council to support the decisions making process.
- **Sustainable resource deployment;** we considered how the project was built into the Council's medium term financial plans and also how it linked to the Council's overall Strategic objectives
- **Working with partners;** we considered how the Joint Venture was being set up, the legal advice and the arrangements going forward.

We found that:

- The reports to Members were high level but provided a level of sufficient detail about the issues and risks, for example providing an options appraisal at a key point in 2013. Also reports to Members were provided at suitable points in this complex process.
- The Consultant who reviewed the financial model produced a detailed report incorporating recommendations. These highlighted the need to monitor any changes to the scheme and consider the impact on receipts. The Consultant's report noted the Model had gone through numerous iterations and earlier versions could not have been signed off. He recommended the Council consider simplifying the model to make it easier to monitor but overall the Consultant stated the existing final Model was robust.
- Officers provided an analysis of how the project is built into financial plans. For example this showed movements such as cash flows relating to loans and corresponding interest on the loans.
- The initial 5 year plan for developing Wichelstowe covers objectives and phasing. It refers to infrastructure costs including a review of such costs in 2018. It notes the S106 is not finalized but anticipates various S106 packages will be triggered during the first 5 years of the development. It talks about funding arrangements and the distribution of returns and also considers options for increasing returns e.g. around commercial land not currently in the model for the first 5 years. Marketing matters are covered then it goes on to outline detailed operational matters such as team working on the JV, budgets and risk management. It finishes with a detailed timeline.



## Key findings continued

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### Audit work and Findings

- There is a detailed structure of legal agreements setting out how the Joint Venture will operate and governing dispute resolution.
- We understand Council officers and leaders met senior management at the private sector partner a number of times during the process of developing the Joint Venture. This enabled the partners to establish a common and shared interest and vision for the development.
- The Development Management Team will support the Joint Venture Board going forward. In addition, the Council's Board representatives will have specific officer support. The existing governance arrangements (Programme Board and Cabinet Member Advisory Group) also will continue to provide both officer and Member support and advice to the Board representatives.

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### Conclusion

#### Auditor view

Based on our review arrangements overall are satisfactory. We identified one weakness regarding a lack of documentation to support the appointment of a Consultant. We have made one recommendation in respect of key controls within the arrangements for the Joint Venture included in appendix A

#### Management response

- [...]
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# Independence and ethics

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related services were identified:



Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
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.
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.

The amounts detailed are fees agreed to-date for audit related 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. All services have been approved by the Audit Committee. 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.

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on the recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	 <b>Medium</b>	<p>When appointing of a Consultant the Council should ensure that the process and decision making is appropriate, and sufficient to demonstrate compliance with procurement rules.</p> <p>This will apply to all key decisions made as the project progresses.</p>	<p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>
2	 <b>Medium</b>	<p>Through the course of the audit work around capitalisation of HRA assets it was noted that some HRA assets were being capitalised before the project had been completed and signed off in Open Housing. The result of this is that the wrong asset value is being capitalised.</p> <p>Further investigation on the matter determined that the effect of the issue is trivial, however it is best practice to ensure that the project is complete and the asset value is accurate before capitalising assets.</p>	<p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• [...]</li> </ul>

## Key

- High – Significant issue or risk of material misstatement requiring immediate action
- Medium – Impact on the control environment resulting in a deficiency or weakness or the risk of incorrect financial reporting
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Swindon Borough Council 2016/17 financial statements, which resulted in 5 recommendations being reported in our 2016/17 Audit Findings report. All 5 have been actioned.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<b>Accounts close</b> We note the deadline for completing the accounts, auditing them and Committee approval is coming forward next year to July 31st. For the current year it is 30 September. The Council needs to ensure processes for preparing the accounts, producing working papers and responding to audit queries continue to be reviewed such that the Council can meet the revised Statutory timetable.	<ul style="list-style-type: none"> <li>The Council were prepared with working papers and responses to audit queries were timely.</li> </ul>
2 ✓	<b>PPE uplift</b> The adjustments made to uplift assets from the valuation date to the balance sheet date should be reversed out next year to maintain the integrity of the underlying asset valuations. Arrangements should ensure there are robust controls over when everything was last valued.	<ul style="list-style-type: none"> <li>Confirmed that the uplift adjustment has been correctly reversed out.</li> </ul>
3 ✓	<b>IT controls</b> <ul style="list-style-type: none"> <li>Access rights be restricted to prevent override of segregation of duties</li> <li>Responsibilities' relating to business process should not be assigned to the system administrators.</li> </ul>	<ul style="list-style-type: none"> <li>Confirmed that while it is not possible to completely remove system administrator's access to business process, the council have implemented appropriate review processes to ensure all changes made are valid and reasonable.</li> </ul>
4 ✓	<b>Journals</b> All journals above £1.6m should be authorised in line with Council Policy.	<ul style="list-style-type: none"> <li>All journals above £500,000 are now reviewed by a member of the finance team.</li> </ul>
5 ✓	<b>PPE Valuations</b> Valuations should be done at 31 December in future years.	<ul style="list-style-type: none"> <li>Valuations are now carried out at the 31 December.</li> </ul>

## Assessment

- ✓ Action completed
- x Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
<b>1 Assets held for sale</b> Adjustment required to move asset from Assets Held for Sale to surplus assets. The asset was incorrectly classified as an Asset Held for Sale	0	£725 – Surplus assets (£725) – Assets held for Sale	0
<b>2 Disposals from AUC</b> An asset was disposed of from Assets Under Construction, however this should have gone through other land and buildings first and been disposed of from there to correctly reflect the status of the asset prior to disposal.	0	£8,816 – Other Land and Buildings (£8,816) – Other land and buildings disposals	0
<b>3 Credit note recognised as a debtor</b> An error was noted where a credit note has been incorrectly treated as a receivable, but should have been a decrease to creditors.	0	£1,143 - Creditors (£1,143) - Debtors	0
<b>4 Accumulated depreciation on HRA revaluation</b> The Council has not correctly accounted for depreciation for those assets revalued in the year. The accumulated brought forward balance for depreciation should be written back to the revaluation reserve for those assets revalued. This has impacted on the Authority's accounts in both 2017-18 and 2016-17, which has necessitated a prior period adjustment and a third Balance Sheet.  The amount written back to the revaluation reserve in 2017-18 in respect of council dwellings also needed to be amended to reflect the change in valuation date to 31 December 2017. This also meant that the amount of accumulated depreciation carried forward to 2018-19 needed to be reduced to reflect that only three months of the annual charge should be included.	£13,446	£30,103 – Property, plant and equipment (council dwellings) £30,103 – Revaluation Reserve	0
<b>Overall impact</b>	<b>£13,446</b>	<b>£30,103</b>	<b>0</b>

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There were no unadjusted misstatements.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Disclosure change	Detail	Adjusted?
1	A number of disclosure changes were proposed throughout the statement of accounts, the Annual Governance Statement, and the Narrative Report.	N/A	Yes
2	Financial Instruments note	£14.739m has been disclosed as an Available for Sale financial asset, however it has not been included in the financial instruments note. This needs to be added to ensure that the Financial Instruments note is internally consistent.	Yes
3	Employee remuneration bandings disclosure	As issue was noted with the source data used to populate the above £50k remuneration bandings note. The note was being populated based on salary information rather than actually what was being paid in year. This amendment resulted in no change to the total 2017/18 number, and an increase of 17 staff for the 2016/17 note.	Yes
4	PWLB debt owing disclosure	£10m owing to London Borough of Newham has been incorrectly included as PWLB debt.	Yes
5	Operating leases – sub let of private sector accommodation	Due to an error in calculation the 'later than one year and not later than 3 years' amount of the note is overstated. The amendment results in a decrease of £5.3m to the future minimum lease payments, and a decrease to the charge to service of £6.9m.	Yes
6	Operating leases as lessor	The operating leases as lessor note is overstated due to incorrect inclusion of rolling leases and not accounting for part year annual rental charges. The total decrease to operating leases is £1.2m which is split across the 3 different timing categories.	Yes
7	Capital grants received in advance	The split in the capital grants received in advance note has changed as a result of s106 grants being paid out to Parish Council's in year. New fund received with conditions not met is to increase by £887k with a corresponding increase to funds written out for repayment.	Yes

# Fees

We confirm below our final fees charged for the audit.

## Audit Fees

	Proposed fee	Final fee
Council Audit	£128,378	£128,378
Grant Certification	£10,476	TBC
Total audit fees (excluding VAT)	£138,854	£TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

No non-audit related services have been undertaken for the Council.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Swindon Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Swindon Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement in the Housing Revenue Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on other than the Authority financial statements and Group accounts and our auditor's report thereon. Our opinion on the financial statements and does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.



### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts **set out on page 11**, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Committee are Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Barrie Morris  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
2 Glass Wharf, Temple Quay, Bristol, BS2 0EL

[Date]

