

The Annual Audit Letter for Swindon Borough Council

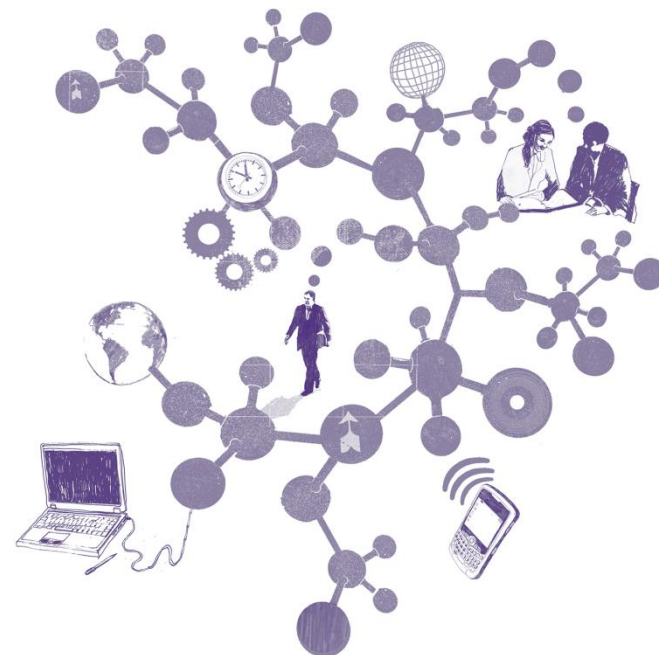
Year ended 31 March 2016

28 September 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swindon Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on September 15.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 22 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Swindon Borough Council in accordance with the requirements of the Code on 22 September 2016.

Certification of grants

We carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete but will be finalised by the deadline of 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We are also due to complete work on three smaller returns, the Teachers Pension Return, the Pooled Capital Receipts Return and a grant claim for funding from the Homes and Communities Agency. This work will be completed in advance of the November deadlines and reported to the Audit Committee.

Working with the Council

As part of our work to issue our Conclusion on the Council's arrangements for ensuring value for money we have reviewed the strategies and plans that were in place during the financial year 2015/16. In common with other local authorities the Council continues to face significant financial challenges arising from funding pressures and increased demand for services. The Council is seeking innovative ways of working in meeting these challenges. The Council needs to ensure it continues to review and develop its financial plans and works robustly with partners to ensure value for money.

The local authority accounting requirements are changing in 2016/17. The accounts are required to include additional information on the cost of the Council's highways assets. Officers are currently reporting further work is required to compile supporting information and the Council will not be able to meet the requirements of the Accounts Code.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £10,277,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality of £20,000 for certain areas such as senior officer remuneration and Councillor's allowances.

We set a lower threshold of £513,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of property plant and equipment The Council's property, plant and equipment, including its housing stock, represents 86% of its total assets. Their value is estimated by property valuation experts. The Council revalues these assets on a rolling basis.	We completed the following work: <ul style="list-style-type: none">• Review of the controls put in place by management to ensure that the Property Plant and Equipment valuation is done correctly.• Review of the instructions issued to the Valuer and the scope of their work• Review of the competence, expertise and objectivity of the Council's management expert who did the valuation.• Discussion with the Valuer regarding the basis on which the valuation is carried out, the key assumptions made and information provided to them.• Test on the revaluations made during the year to ensure they are input correctly into the Council's asset register We did not identify any issues to report.
Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 42% of its total liabilities. The value of the pension fund net liability is estimated by specialist actuaries.	We have: <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Gained an understanding of the basis on which the valuation is carried out.• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.• 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. We did not identify any issues to report.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 15 September 2016.

In addition to the key audit risks reported above, we identified:

- £11m of heritage assets which were incorrectly included in the Council's accounts but were actually on loan from other entities.
- One school which had converted to an Academy during the year but the assets had not been removed from the Council's accounts.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website along with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. A number of amendments were made to the return. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not taken or been required to take action under these powers.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed recommendations to address our findings.

- The Council needs to ensure there is capacity across its management teams to support delivery of the change programmes.
- Members should consider an annual report on the Council's key partners setting out the governance arrangements and the related risks and mitigations to those risks.
- The Council is seeking to take forward the housing development at Wishelstowe. Members should continue to be informed of progress and how the scheme and future investments in it ensures value for money and that there is capacity for managing the development.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial health</p> <p>Between 2017/18 and 2019/20 the Council is anticipating cost pressures of £63.5m which after assumed increases in income (eg council tax) leaves a gap of £49m. Key actions to address the gap including service reductions, and early interventions in areas such as social care to avoid costs have been identified. The overall financial challenge raises significant risks to the Council's medium term financial stability.</p>	<p>We reviewed and discussed the risks in the Council's medium term financial plans.</p>	<p>The Council set a balanced budget for 2016/17 in February 2016. Since then the Council has continued to develop its Vision which is feeding into a new four year plan due to be completed in September.</p> <p>Key themes in Council plans include:</p> <ul style="list-style-type: none"> - Developing income sources - The local delivery of services and - Controlling costs, for example through managing the social care market <p>Our review of Council plans indicates assumptions are robust and detailed. The Council consults on its plans and also considers the national context as well as the local position. Current plans are realistic and the Council is being innovative in seeking solutions to its financial challenges, although delivery will be challenging. The current budget gap for 2017/18 is £6m, work is on-going to address the gap.</p> <p>On this basis we concluded that the risks were sufficiently mitigated and the Council has proper arrangements.</p>
<p>Oversight of Council subsidiaries and partner bodies</p> <p>In response to growing financial pressures and to deliver high quality services in a changing environment, the Council is engaging with increasing numbers of partner bodies. These vary significantly in the nature of the arrangement. Recent examples include the solar farm project linked to Swindon Common Farm Community Interest Company and the financing arrangement for the related bond issue. Also the Wichelstowe Joint Venture Partnership to oversee a key development project in the Borough.</p> <p>The Council and those charged with governance need to ensure they have on-going robust oversight arrangements in place.</p>	<p>We reviewed corporate arrangements at the Council for monitoring and reporting on the performance of its subsidiaries and partners.</p>	<p>Current arrangements vary. Councillors are appointed as non-executive directors to the main subsidiary companies, Thamesdown Transport Limited and Public Power Solutions. There are also shareholder panels. These arrangements provide oversight in specific areas.</p> <p>Overall, however, arrangements are not consistent across all areas. For example there is no direct link to Forward Swindon. There is insufficient evidence of Council governance and monitoring to ensure that arrangements for oversight are sufficiently challenging and that risks are minimised and services are delivered as intended. There is no overall summary record of how individual partner arrangements are managed.</p> <p>We concluded overall that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Value for Money

Table: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial close of the Wichelstowe development joint venture contract</p> <p>Negotiations to agree a joint venture development using Council land and previous infrastructure investment have been on-going for two years. Financial close is expected imminently to enable the Council to recover debt of £43m and realise additional gains. There have been some late changes to the financial model, for example to reflect the need for additional piling at the site. The risk to the Council is that it does not obtain the best deal in the circumstances.</p>	<p>We will review the changes to the Model, the impact on expected returns and the information reported to Members.</p>	<p>Negotiations have remained at the final stage since the beginning of 2016 but the contract remains unsigned.</p> <p>Officers have continued to monitor risks and keep the Leader's advisory group and the cross party advisory group up-dated. The Council has reassessed options for the early stages of the development. The option being proposed is the Council developing the district centre independently. At the same time they would continue to negotiate with the joint venture partnership on the house building.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We worked with you to strengthen your processes including controls over journals.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for you to continue to review and develop the Council's financial plans and work robustly with partners to ensure value for money.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included:

- Knowing the Ropes – Audit Committee; Effectiveness Review
- Re-forging local government – summary findings of financial health checks and governance reviews across the local authority sector.
- Local Authority Trading Companies.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Providing training – we provided your teams with training on financial accounts and annual reporting.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economic context and service outcomes of councils across the country.

Working with the Council

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. Previously these assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your officers and are arranging a seminar with councils in the area to discuss issues and progress. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

Officers recognise this will be a major challenge but they consider that the requirements of the Code will be implemented for 2016/17. To achieve this they anticipate estimating the value of certain assets as the Council does not hold a comprehensive inventory across the network in line with the categorisation of assets set out in the Code, for example in relation to verges.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year. In 2018 the Council will be required to prepare its accounts by May 31 and we will be required to complete the audit by July 31. To assist the Council to meet these earlier deadlines we have shared our national report on earlier close and will be arranging workshops with officers.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	128,378	128,378	171,170
Housing Benefit Grant Certification	10,476	10,476	18,000
Total fees (excluding VAT)	138,854	138,854	189,170

Reports issued

Report	Date issued
Audit Plan	19 April 2016
Audit Findings Report	15 September 2016
Annual Audit Letter	28 September 2016

Fees for other services

Service	Fees £
Audit related services:	
• Review of Teachers Pensions Agency Return	4,200
• Review of Pooling of Housing Capital Receipts Return	2,200
• Review of Homes and Communities Agency claim	2,500
Non-audit services	
• Place analytics data service	6,900
• Review of PFI contract	5,600



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