

Informing the audit risk assessment for Swindon Borough Council and Group

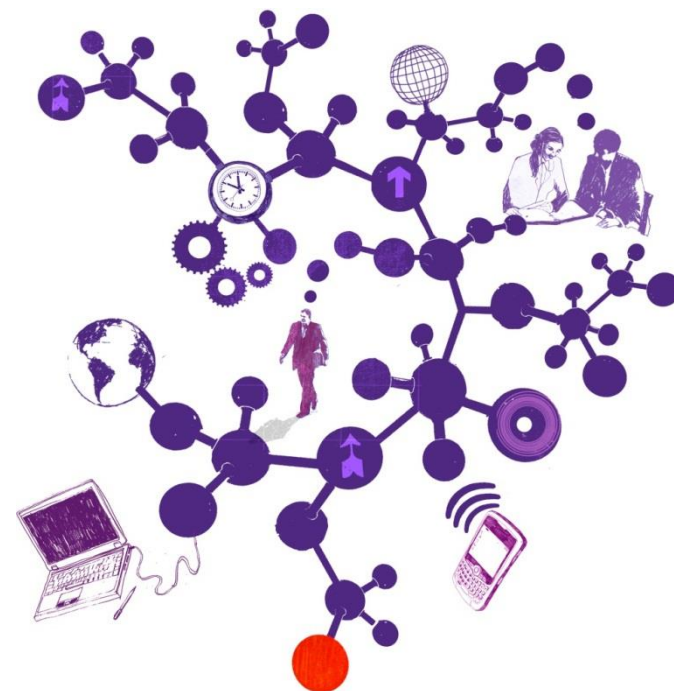
Year ended

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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

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

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.

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.

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:

- 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.

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.

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)

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
<p>Matters in relation to laws and regulations</p> <p>ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.</p> <p>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.</p> <p>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.</p> <p>Risk assessment questions have been set out below together with responses from management.</p>

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

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.
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).	No
Does a review of available financial information identify any adverse financial indicators including negative cash flow ? If so, what action is being taken to improve financial performance ?	No. Treasury activity is such that cash flows are routinely monitored and action taking to ensure funds available.
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 ? If not, what action is being taken to obtain those skills ?	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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