

# **Audit Committee**

**Tuesday, 24 September 2013**

## **Additional Information**

Agenda item No. 8(b) – External Auditor: Audit Findings

Contact: Steve Jones (01793 463602),  
email: [stevejones@swindon.gov.uk](mailto:stevejones@swindon.gov.uk)

This page is intentionally left blank



# The Audit Findings for Swindon Borough Council

## DRAFT

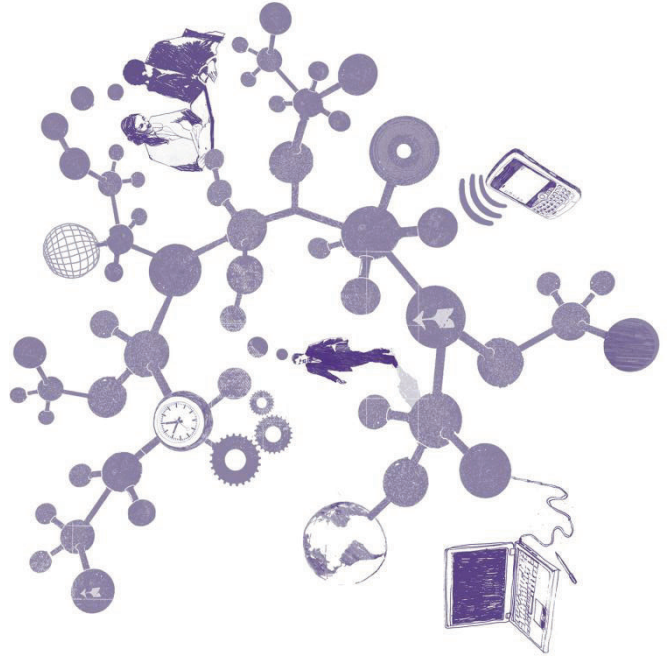
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013  
17 September 2013

Elizabeth Cave  
Engagement Lead  
T 0117 305 7785  
E [liz.a.cave@uk.gt.com](mailto:liz.a.cave@uk.gt.com)

Peter Smith  
Audit Manager  
T +44 (0)1173 057 832  
E [peter.w.smith@uk.gt.com](mailto:peter.w.smith@uk.gt.com)

Ian Loveys  
In Charge  
T +44 (0)1173 057 864  
E [ian.i.loveys@uk.gt.com](mailto:ian.i.loveys@uk.gt.com)



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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Contents

Section	Page
1. Executive summary	[4]
2. Audit findings	[7]
3. Value for Money	[22]
4. Fees, non audit services and independence	[25]
5. Communication of audit matters	[27]
<b>Appendices</b>	
A Action plan	
B Audit opinion	
C Overview of audit findings by account	

Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

## Executive summary

### Purpose of this report

This report highlights the key matters arising from our audit of Cheltenham Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

### Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan on 25 June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- resolving queries in the following areas: Property Plant and Equipment, Operating Expenses, Provisions, Journals, Related Party Transactions and Accounting Estimates
- completing our work on Whole of Government Accounts.
- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements
- confirming the final status of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion

© 2013 Grant Thornton UK LLP | Report Name | Date

We received draft financial statements on 28 June 2013 a few days before the agreed timetable and detailed working papers were obtained on 15 July at the start of our on-site visit, in accordance with the agreed timetable. The Council only received audited accounts for Swindon Commercial Services (SCS) on 13 September 2013 which meant that the expected amendments to the draft accounts were made later than planned. This had only a minor impact on the completion of our audit work.

### Key issues arising from our audit Financial statements opinion

We have identified no material errors in the accounts. We did identify 6 non material errors all of which have been adjusted by management. In addition a small number of adjustments and changes have been made to enhance disclosures in the accounts, including amending a material misclassification in the Comprehensive Income and Expenditure Statement (CIES). Changes were also made to the Group accounts following receipt of audited accounts for SCS.

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- we identified only a small number of errors in the accounts
- fewer post audit adjustments were required this year than last year
- none of the adjustments have affected the balance on the Council's General Fund
- we have made a number of recommendations for management to consider (see the action plan at Appendix A)
- the finance team provided prompt responses to our audit queries

Further details are set out in section 2 of this report.

## Value for money conclusion

We intend to give an unqualified VFM conclusion stating that , in all significant respects Swindon Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council is facing significant challenges due to the squeeze on local government finances as well as the risks associated with the Wichelstowe project. Its six key transformation projects will fundamentally review how services are delivered with the aim of achieving more substantial savings without damaging outcomes. It is too early to assess how effective they will be.

The Council should continue to develop the financial skills and experience of all members to equip them to make appropriate financial decisions and monitor their impact.

Further detail of our work on Value for Money is set out in section 3 of this report.

## Whole of Government Accounts (WGA)

Work is underway and will be completed before the 4<sup>th</sup> October 2013 in accordance with the national timetable.

## Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Whilst our work has not identified any control weaknesses within the Council's financial systems that we wish to highlight for your attention, our preliminary work assessing the Council's IT controls did identify some weaknesses regarding access controls.

Full details are provided within section 2 of this report.

## The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

## Acknowledgment

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.

**Grant Thornton UK LLP**  
**September 2013**



Section 2:    Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 20 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 25 June 2013.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	Our work to address this presumed risk included: <ul style="list-style-type: none"> <li>review and testing of revenue recognition policies</li> <li>testing of material revenue streams</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.
2.	<b>Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls	Our work to address this presumed risk included: <ul style="list-style-type: none"> <li>review of accounting estimates, judgements and decisions made by management</li> <li>testing of journals entries</li> <li>review of unusual significant transactions]</li> </ul>	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.  We set out later in this section of the report our work and findings on key accounting estimates and judgments.

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Documentation of accounting system processes</li> <li>Identification and walkthrough of, activities-level controls</li> <li>Detailed substantive tests on the cost of services gross expenditure</li> <li>Consideration of existence of unrecorded liabilities</li> <li>Consideration of disclosures made through supporting notes to the accounts</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Employee remuneration</b>	Remuneration expenses not correct Employee remuneration accruals understated	<ul style="list-style-type: none"> <li>Documentation of accounting system processes</li> <li>Identification and walkthrough of, activities-level controls</li> <li>Attribute testing of employee remuneration expenses and agreement to source documentation</li> <li>Detailed substantive tests on employee remuneration expenses</li> <li>Consideration of work of the actuary</li> <li>Consideration of disclosures made through supporting notes to the accounts</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<ul style="list-style-type: none"> <li>Documentation of accounting system processes</li> <li>Identification, and walkthrough of, activities-level controls</li> <li>Review of Northgate system parameters</li> <li>Detailed substantive tests on the cost of services gross expenditure</li> <li>Consideration of existence of unrecorded liabilities</li> <li>Consideration of disclosures made through supporting notes to the accounts</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Property, Plant &amp; Equipment</b>	Revaluation measurement not correct PPE activity not valid	<ul style="list-style-type: none"> <li>Documentation of accounting system processes</li> <li>Identification and walkthrough of, activities-level controls</li> <li>Detailed substantive tests of revaluations and PPE transactions</li> <li>Review of the work of an expert</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risks identified</p> <p>We noted that the Council could not easily produce a complete schedule of assets under construction. The balance includes over £60m in relation to infrastructure works at Witchelstowe which will be re-classified as infrastructure costs when the assets are regarded as operational by management. When operational the assets would attract depreciation. No depreciation is currently being charged although the assets are in part physically in use. As a consequence the running costs of the asset will be charged in subsequent years. We are satisfied that the impact of the Council's treatment has not produced a material error in the accounts but we recommend that the treatment be reviewed.</p> <p>Other than this we are satisfied that there is no material risk of error in the accounts.</p>



## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing Rent Revenue Account	Revenue transactions not recorded.	<ul style="list-style-type: none"><li>Detailed analytical review of income</li><li>Detailed substantive testing of HRA income</li></ul>	Our audit work has not identified any significant issues in relation to the risk identified

## Accounting policies, estimates & judgements


In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Council.</li> <li>Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>Minimal judgement is involved</li> <li>Accounting policy is properly disclosed</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements included: <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice and properly disclosed.</li> <li>Reliance on experts is taken where appropriate</li> <li>We discussed with management the basis for calculating the PFI liability. As at 31.3.2013 the liability was estimated to be £47,002. Following our discussions management agreed to amend the accounts to increase the liability by almost £4m to just under £51m. This had no impact on the CIES. After this adjustment the liability is still about £7.1m greater than our modelling would suggest. The Council's view is that its assessment of the liability is correct and so no further adjustment has been made. We have recommended that the Council carries out further work to ensure that the liability disclosed is accurate.</li> </ul>	

**Assessments**  Marginal accounting policy which could potentially attract attention from regulators  Accounting policy appropriate but scope for improved disclosure  Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	<ul style="list-style-type: none"><li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li></ul>	<ul style="list-style-type: none"><li>Our review of accounting policies has highlighted that the Council's policies are appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li></ul>	

**Assessmente**  Marginal accounting policy which could potentially attract attention from regulators  Accounting policy appropriate but scope for improved disclosure  Accounting policy appropriate and disclosures sufficient



## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All non trivial adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The liability in respect of the Council's PFI scheme has been increased following comparison with an updated financial model. The cost of 'loose fittings' and utilities diversion costs should have been captured in the initial construction cost. There was no impact on the Council's General Fund.	-3,923	-3,784	-3923
2	Accrued interest on borrowings is shown in short term creditors when it should have been added to the vale of the borrowing and included in short term borrowing		1,304 -1,304	
3	The debtor in relation to the finance lease for the Oasis leisure centre has been included in short term debtors when it is a long term debtor.		1,239 -1,239	
	<b>Overall impact</b>	<b>£-3,923</b>	<b>£3,784</b>	<b>£-3,923</b>

## Adjusted misstatements

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
4 The analysis of assets in Note 11 is incorrect as £1.17m paid to Westleigh Housing Association as a contribution towards the Union Square Project is shown as assets under construction rather than in the CIES under the Other Housing Services service line. There is no impact on the General Fund balance.	-1,170	-1,170	-1,170
5 There were a number of debit balances in creditors which meant that both debtors and creditors were understated. The prior year comparisons were adjusted for consistency of presentation.		893 -893	
6 The loss on disposal of investment properties was incorrectly shown in the Other Operating Expenditure line of the CIES when it should have been shown in the Financing and Investment income line.	849 -849		Nil
7 Total of trivial amendments to the accounts	-176	-315	
<b>Overall impact</b>	<b>£-5,269</b>	<b>£-5,269</b>	<b>£-5,269</b>

## Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	16,354 -16,354	CIES	There were a number of misclassifications in the CIES which reduced both income and expenditure by £16,354m.
2 Misclassification	557 -557	PPE	Croft School disposal was incorrectly classified as Asset Under Construction rather than Other Land and Buildings
3 Disclosure and misclassification	1,042	Group	The Group Accounts in Note 72 have been amended to reflect changes in the Council's accounts and changes arising from the external audit of the components. The total net comprehensive Income and expenditure of components increased by £1,042m.
4 Misclassification	3,600 -3,600	PPE	The former Headlands School site was incorrectly classified as a surplus asset rather than an asset held for sale. There is no net impact on the financial statements.
5 Disclosure	N/A	Operating Expenditure	There were a number of transposition error in Note 7 (now Note 8) relating to other operating expenditure.
<b>Overall impact</b>	<b>£1,042</b>		

## Unadjusted misstatements

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


Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 There are no unadjusted non trivial errors	NIL	NIL	N/A
<b>Overall impact</b>	<b>£NIL</b>	<b>£NIL</b>	<b>N/A</b>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

Assessment	Issue and risk	Recommendations
1. 	<p>Our work on reviewing high level IT controls identified that at the time of our review:</p> <ul style="list-style-type: none"> <li>User accounts and associated permissions within the Active Directory were not being formally, proactively reviewed for appropriateness</li> <li>Security administrators within Oracle EBS, Northgate, and Active Directory rely on the end-user community to notify them of accounts which should be disabled and receive historical reports of leaver activity</li> <li>The complexity of passwords in the Midland Trent system is not enforced</li> <li>A formalized process of amending Oracle EBS user permissions belonging to transferring employees and a process of removing no- longer needed access from the Active Directory did not exist</li> <li>At least one end-user within the Northgate system had the ability to administer security</li> </ul>	<p>Management should :</p> <ul style="list-style-type: none"> <li>Ensure that the appropriateness of user access is formally monitored on a regular basis</li> <li>Improve the process to identify no longer needed access in Oracle EBS, Northgate and Active Directory, so access can be cancelled more promptly</li> <li>Enforce the need for complex passwords for access to the Midland Trent system</li> <li>Introduce a formalised process of amending Oracle EBS user permissions for transferring employees and for removing no longer needed access rights to the Active Directory</li> <li>Review administrator rights to the Northgate system to avoid conflicts of interest</li> </ul>

### Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of consequential misstatement

## Internal controls

	Assessment	Issue and risk	Recommendations
2.	●	The Council could not readily produce evidence of un-presented cheques for the Benefits Account. There is no risk of material error in the accounts as un-presented cheques were trivial in amount (i.e. £76k)	Management should ensure that evidence of transactions included in bank reconciliations are retained and available for audit.
3.	●	The financial performance of arms length bodies (i.e. Swindon Commercial Services and Thamesdown Transport were below expectations for the year.	The Council should ensure that the financial situation with its arms length bodies is closely monitored and the impact reflected in future revisions to the MTFP

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of a number of instances of potential benefits claimant fraud. We are satisfied that these have no impact on our opinion.</li> <li>No other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council with an additional representation added relating to loans made to business units</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> <li>However,             <ul style="list-style-type: none"> <li>the Council have disclosed cash balances relating to Academies in its balance sheet. The value is trivial to the accounts so no amendment has been made.</li> <li>Improved the disclosure to explain the accounting treatment for Wichelstowe to explain the criteria for re-classification of assets when they are regarded as operational</li> <li>An additional note was added to show an analysis of central services costs</li> <li>Note 44 was amended to include the value of Housing Benefit Subsidy Income</li> </ul> </li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

Section 3: Value for Money

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters



# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Financial management and control are robust. The Council is facing significant challenges due to the squeeze on local government finances as well as the risks associated with the Wichelstowe project. The expected financial gap is almost £50m over the next three years and six key transformation projects are underway to help bridge it. These will fundamentally review how services are delivered with the aim of achieving substantial savings without damaging outcomes. It is too early to assess how effective they will be.

The Medium Term Financial Plan includes assumptions about the future of the Council's arms length bodies and the Wichelstowe development. They should be closely monitored and the impact of any changes reflected in future revisions to the plan.

The Council should continue to develop the financial skills and experience of all members to equip them to make appropriate financial decisions and monitor their impact.

Our overall conclusion is that whilst the Council faces continuing financial risks its current arrangements for securing financial resilience are sound.

## Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Our overall conclusion is that the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively. The Council's overall spending per person is low compared with similar Councils. Within this there are some areas of relatively high spend which the Council understands and is taking action on. Adult Social Care is an area of high spending and is therefore one of the key transformation projects. Costs in leisure and housing are reducing.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risk to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Two of he Council's component companies have faced financial challenges which have led to the Council increasing the level of intervention and financial support over the past year. Given, the Council's own challenging financial position the level of governance and oversight may need to be strengthened	The Council is taking steps to bring back in house most of the functions previously carried out by Swindon Commercial Services.	We are satisfied that although a residual risk exists this risk is being addressed and there is no adverse impact on our VfM conclusion this year.
The Wichelstowe project still represents a significant financial risk to the Council. due to the potential increased burden of interest costs once the developers contribution has been utilised.	The Council has identified a new property advisor for the Wichelstowe development to help it identify a new joint venture partner.	We are satisfied that although a residual risk exists this risk is being addressed and there is no adverse impact on our VfM conclusion this year.

Section 4: Fees, non audit services and independence

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan	Actual fees
	£	£
Council audit	170,100	170,100
Grant certification*	16,050	16,050
<b>Total audit fees</b>	<b>186,150</b>	<b>186,150</b>

\*Certification work is on-going. The final fee will reported to the Audit Committee later in the year in our annual certification report.

## Fees for other services

Service	Fees £
None	Nil

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

## Appendix A: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Consideration should be given to the internal control issue included in this report	Medium		
2	<p>The Council should ensure that the financial situation with its arms length bodies and Witchelstowe is closely monitored and the impact reflected in future revisions to the MTFP</p> <p>Given, the current challenges in the arms length bodies the level of governance and oversight of subsidiaries should also be strengthened. This could include increasing financial monitoring and obtaining assurance (perhaps via Internal Audit) of the general governance arrangements in place and the strength of the overall control environment. This would help management in assessing any risks more confidently.</p> <p>It is also important that lessons learned are carried forward when developing current and future commercial business cases for service reorganisation.</p>	Medium		



## Appendix A: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	The Council should investigate further the £7m difference between its estimate of the PFI liability and that identified in the firms model.to ensure the Council's calculation of the PFI liability and scheduling of interest and principal costs is robust given the adjustment to the liability made in the 2012/13 accounts.	Medium		
4	The Council should maintain a clear trail of expenditure on assets under construction to enable the existence of these assets to be tested more easily and specifically: <ul style="list-style-type: none"> <li>review the accounting treatment for the assets under construction on the Wichelstowe site which are now physically in use</li> </ul>	Medium		
5	The Council should continue to develop the financial skills and experience of all members to equip them to make appropriate financial decisions and monitor their impact.	Medium		

# Appendix B: 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

### Opinion on the financial statements

We have audited the financial statements of Swindon Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2012/13.

This report is made solely to the members of Swindon Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

### Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Swindon Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

***Respective responsibilities of the Authority and the auditor***

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2013.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Swindon Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

***Certificate***

We certify that we have completed the audit of the financial statements of Swindon Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth A Cave  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

xx September 2013

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not made any changes to our audit plan communicated to you on 25 June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	Yes	See comments on pages 16 and 17
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded		None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income <sup>9</sup>	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	Yes	See comments on pages 11 and 17
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	Yes	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	See comments on page 15 and 16.
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	See comments on page 15
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	See comments on pages 13,15 and 16
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



© 2013 Grant Thornton UK LLP. All rights reserved.  
'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.  
Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.  
**[grant-thornton.co.uk](http://grant-thornton.co.uk)**