

Annual Governance Report

Swindon Borough Council

Audit 2007/08

16 September 2008

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. We are yet to fully complete our work on Value for Money and some elements of the Balance Sheet. This report identifies the key issues identified to date that you should consider before we issue our opinion, conclusion and certificate. We will provide either a verbal or written update to your meeting on 23 September 2008, as appropriate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 Although we have yet to fully complete our work we expect to issue an unqualified opinion on the financial statements.

Value for Money

- 4 Although we have yet to fully complete our work we expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Next steps

- 5 We ask the Audit Committee to:
 - recommend the financial statements for approval;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 6 The Council's financial statements and Annual Governance Statement are important means by which the Council's accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 7 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 8 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 9 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Changes in the management of the IT infrastructure and key financial systems.	We identified no significant impact on the operation of controls within key financial systems as a result of the changes in management.
The SORP for 2007/08 will introduce further fundamental changes to the way financial statements are presented.	The Council's accounts reflected the SORP changes in all material respects.
Given the scale and complexity of some of the Council's projects (e.g. the Wichelstowe development) the Council needs to ensure it accounts properly for the related financial transactions	The Council's accounting entries related to the Wichelstowe development were compared to guidance from our technical unit and found to represent proper accounting treatment.

Issue or risk	Finding
There have been historic problems in preparing grant claims on a timely basis. Continuing delays may increase the amount of work we need to do to gain assurance over the accounting entries. In particular there may be significant issues arising on the HOU1 and BEN 1 claims.	The Director of Finance strengthened arrangements sufficiently so that material grant claims were prepared in a timely fashion.

Draft representation letter

10 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

- 11 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 12 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

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Table 2 Accounting practice and financial reporting

Issue or risk	Finding
<p>The Statement of Total Recognised Gains and Losses is not fully reconciled to the other statements.</p>	<p>The finance team have reconciled the Statement of Total Recognised Gains and Losses to other principal statements in the accounts to within £10k. We are satisfied that this difference does not indicate the risk of any material mis-statement in the Council's other primary statements or the risk of any material adjustment to the Council's financial position as the 31 March 2008.</p>
<p>The audit trail to support a number of entries in the accounts is not completely adequate.</p>	<p>It has not been possible to agree the figures in respect of a number of service lines. The areas where it was more difficult to follow the audit trail (i.e. where it was not possible to understand the source of the figures) were Children's Services and Adult Social Care. We are satisfied that there is no risk of a material under or over statement of the Council's financial position as a result of this weakness.</p> <p>Supporting information to prove the accounts had been reconciled as at 31 March was not readily available. Work carried out by the central finance team on bank accounts held by 12 schools provided assurance that the risk of a material mis-statement in the Council's accounts was low.</p> <p>It has not been possible to completely reconcile the Cash Flow Statement in the accounts with other linked statements. For example differences appear within the operating costs line in the Cash Flow Statement and in Note 31. We are satisfied that there is no risk of a material under or over statement of the Council's financial position as a result of this weakness.</p>

<p>We have identified a number of opportunities to improve disclosure within the statements.</p>	<p>The Council have agreed to improve the disclosure within the accounts in 2007/08 both to improve the understanding of the accounts and increase the level of compliance with the Statement of Recommended Practice. The most significant changes are:</p> <ul style="list-style-type: none"> • To include explicit references to the adjustments made in the statements to prior year comparatives as a result of changes in accounting requirements. • To include a reference to the change in accounting policy in respect of unapplied capital grants and long term creditors to improve the method of accounting. • Correction of a number of notes to improve consistency and understanding within the statements including Note 17 and 17b in relation to capital financing and capital spending.
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Recommendation

- R1** The Council needs to fully reconcile the Statement of Total Recognised Gains and Losses with other statements to demonstrate better the consistency and robustness of entries throughout the statement of accounts.
- R2** The Council needs to provide better evidence to support the classification of income and expenditure in the income and expenditure account, the reconciliation of school balances and the Cash Flow Statement. This is likely to involve closer monitoring of information supplied by service departments

- 13** As this is our first audit of the Council's accounts we have also identified a number of improvements in the way we will carry out our audit next year and some areas where we believe the Council can improve its own processes or documentation further. We have agreed with the Director of Finance that we will discuss these at a joint planning meeting to be held in November 2008.

Independence

Errors in the financial statements

- 14 We identified a small number of errors in the financial statements (other than those of a trivial nature) and reported these to management. Management agreed to adjust the financial statements in respect of all non trivial errors identified.

The audit report

- 15 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Other matters

- 16 There are no other matters that auditing standards require me to report to you.

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Value for money

- 17 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria and our conclusion is informed by our work on Use of Resources.
- 18 We have not yet fully completed our work in this area although we expect to assess the arrangements of the Council as adequate in all twelve areas and we therefore expect to issue an unqualified conclusion.

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Formal audit powers

19 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council

20 We have not exercised and do not propose to exercise these powers in relation to the 2007/08 audit.

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Independence

- 21** The Code of Audit Practice and the Audit Practices Board's (APB's) Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 22** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 23** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 24** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 25** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 3 Audit fees

	Plan 2007/08	Expected Actual 2007/08
Financial statements and Annual Governance Statement	£138,765	£138,765
Use of Resources including the Value for Money conclusion, data quality and Use of Resources assessment.	£137,029	£137,029
National Fraud Initiative	£1,050	£1,050
Partnership working	£13,091	£13,091
Total Audit Fees	£294,145	£294,145

- 26** The analysis above shows that we contained our audit fee within the totals you have already agreed.

Independence

Our arrangements to ensure independence and objectivity

27 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

Table 4 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any of our audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft letter of representation

Draft management representation letter

To: Martin Robinson

Appointed Auditor

Swindon Borough Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Swindon Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008. All representations cover the Council's accounts and Group Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements, in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom and the relevant Statement of Recommended Practice, which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council Board and Audit Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

Appendix 3 – Draft auditors report

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the assumptions in respect of loans and investments, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- there are no subsequent events which require adjustment to the fair value measurement.

Group entities

I confirm that the Council plan to hold their investment in Thamesdown Transport Ltd for a period of more than 12 months or longer.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Swindon Borough Council

I confirm that this letter has been discussed and agreed by the Council.

Signed

Name S McKellar

Position Director of Finance and Section 151 Officer

Date 23 September 2008

Appendix 2 – Summary of non trivial errors

Table 5 Summary of non trivial errors

Description	Value	Impact
Corrected		
The Council has identified itself during the reconciliation of the Statement of Total Recognised Gains and Losses that a historic grant received and included as an unapplied capital receipt should have been shown as an unapplied grant.	£4.759m	The Income and Expenditure Account was amended with changes required to other linked statements.
The Council has calculated the liability in respect of payments to the National Non Domestic Rates Pool based on information available in the interim NNDR claim. This estimate was not updated for more recent information available at the balance sheet date. The better information shows that the liability to the pool is likely to be £618k less. This is not a material error.	£0.618m	There was no net impact in the income and expenditure accounts or on the financial position of the Council as a result of the correction of this error. The income and expenditure in the collection fund were both incorrect by the same amount.
We identified that an accounting journal prepared to ensure the correct value of impairment of HRA properties was input as a debit rather than a credit.	£9.8m HRA £4.759m GF	There was no net impact in the income and expenditure accounts or on the financial position of the Council as a result of the incorrect journal as the adjustments required were offset by adjustments elsewhere (in accordance with the SoRP).

Appendix 3 – Draft auditors report

Independent auditor's report to the Members of Swindon Borough Council

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Swindon Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls.

Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Swindon Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

Your previous auditors issued their statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 21 December 2007. They did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Auditor's responsibilities

I have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to my attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public. No such matters have arisen in the course of my audit.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Appendix 3 – Draft auditors report

Martin Robinson (District Auditor)

Audit Commission

Westward House

Stoke Gifford

Bristol

Dated

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Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 The Council needs to fully reconcile the Statement of Total Recognised Gains and Losses with other statements to demonstrate better the consistency and robustness of entries throughout the statement of accounts.	Medium	Director of Finance	Yes	Measures are already being put in place to ensure ledger balance sheet movement cannot occur except by passing through Corporate finance for agreement. This will provide the consistency in closing 2008/09.	31/3/09
7	R2 The Council needs to provide better evidence to support the classification of income and expenditure in the income and expenditure account, the reconciliation of school balances and the Cash Flow Statement. This is likely to involve closer monitoring of information supplied by service departments	High	Director of Finance	Yes	A change in consolidation process is planned to provide more transparent consolidation from finance teams. Children's finance team to review schools balances.	31/3/09