

# The Annual Audit Letter for Swindon Borough Council

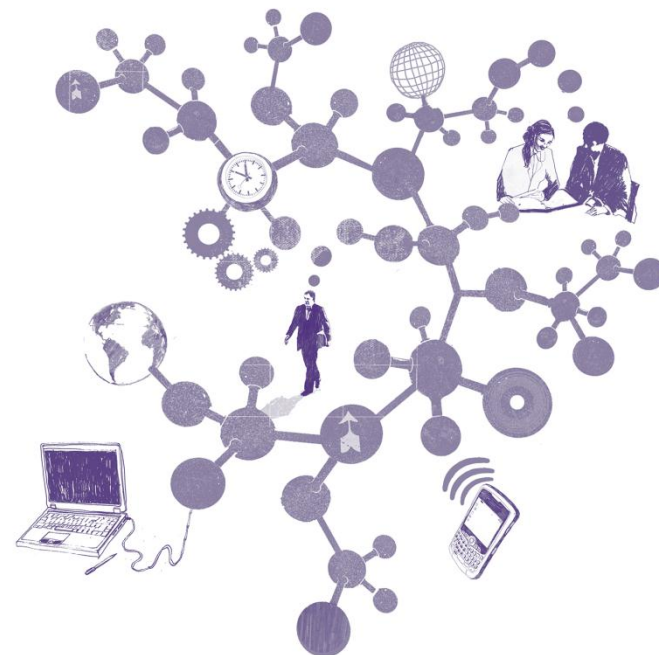
---

**Year ended 31 March 2013**

25 October 2013

Elizabeth Cave  
Engagement Lead  
T 01173 05 7 785  
E [liz.a.cave@uk.gt.com](mailto:liz.a.cave@uk.gt.com)

Peter Smith  
Audit Manager  
T 01173 057 832  
E [peter.w.smith@uk.gt.com](mailto:peter.w.smith@uk.gt.com)



---

# Contents

Section	Page
1. Executive summary	[3]
2. Audit of the accounts	[6]
3. Value for Money	[8]
4. Certification of grant claims and returns	[11]

## Appendices

A Reports issued and fees

---

## Section 1: Executive summary

**01. Executive summary**

**02. Audit of the accounts**

**03. Value for Money**

**04. Certification of grant claims and returns**

The Council has met the financial challenges of reduced funding well, but these now look set to continue for several years. The Medium Term Financial Strategy provides a solid base, but future challenges and risks are considerable.

---

# Executive summary

## Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Swindon Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 24 September 2013.

## Responsibilities of the external auditors and the Council

This Letter 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)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 23 April and agreed by the Audit Committee on 25 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- so far we have certified 2 grant claims and returns, 1 of which was certified without amendment. Neither were qualified. Our work auditing 2 further claims is on-going.

---

# Executive summary

## Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council continues to operate in a difficult financial climate. Indications are that public sector spending will be subdued for several years, with the government setting a target of achieving a budget surplus in the next parliament. This may well lead to further reductions in government funding for local authorities.

The Council's process for financial forecasting and developing financial assumptions is robust and the Council has a strong recent track record on delivering budgets and savings plans. However, given that the expected cumulative financial gap over the next three years is £50m and that future budget predictions are subject to uncertainty, officers and members will need to continue working effectively and proactively together to manage the risks the Council faces and to bridge any funding gaps identified.

The Council has responded well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively. Overall spending per person is low compared with similar Councils.

The Council is currently managing the following significant risks:

- entering into a joint venture partnership for the Wichelstowe development
- the provision and cost of adult social care
- implementing another four key transitional change projects
- maintaining adequate oversight of its arms length subsidiaries

## Acknowledgements

This Letter has been agreed with the Chief Executive and Director of Resources and will be presented to Audit Committee on 5 November 2013.

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

**Grant Thornton UK LLP**  
**October 2013**

---

## Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Our audit of your accounts went well and we were able to issue an unqualified opinion and Value for Money Conclusion by the 30 September deadline.

# Audit of the accounts

## Audit of the accounts

The key findings of our audit of the accounts are summarised below:

## Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in line with the national deadline. Appropriate working papers were made available from the start of the audit, which commenced on 15 July 2013.

## Issues arising from the audit of the accounts

The Council's accounts contained few errors. There were no material errors and only two other significant errors both of which were adjusted by management. In addition a small number of adjustments and changes were made to enhance disclosures in the accounts.

We discussed a number of issues with management including:

- As a result of our audit the Council increased its estimate of the liability arising from its PFI scheme by £3.923m. This was as a result of a comparison of our firm's model for calculating the liability with that used by the Council. The increase in the estimated liability was necessary due to the Council recognising that some initial costs had been excluded from its own model. The difference in liability does not automatically lead to an impact on the payments the Council has agreed to make over the life of the PFI scheme, although there is a risk that the scheduling of interest (revenue) and principal (capital) costs in the past and in the future may be incorrectly calculated in the Council's model. There remains a further difference of £7.1m between the Council's model and our model which management have agreed to investigate.

- 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 at Witchelstowe which has been growing over the last few years pending the planned adoption of the site by a developer. The Council as highways authority has not yet adopted the infrastructure as the development is not complete but has agreed to review this policy and its accounting treatment next year. Following our audit the situation was disclosed in a note to the accounts. We plan to carry out further work on the issue.
- The need to ensure that the financial situation of the Council's arms length bodies (e.g. Swindon Commercial Services and Thameadown Transport Ltd) and Witchelstowe is closely monitored so that any financial impact can be reflected in future revisions of the Council's Medium Term Financial Strategy.

## Annual governance statement

The Council has in place a thorough and robust process to produce the annual governance statement. The statement was consistent with our knowledge of the Council and compliant with guidance issued by CIPFA.

## Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified qualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. As we had not completed our work on Whole of Government Accounts by the date of our opinion we issued our certificate confirming our audit was complete on 4 October 2013.

---

## Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

We were able to give an unqualified Value for Money Conclusion. We identified that the Council has some significant risks to manage including the need to find a new partner for the Wichelstowe development and the need to continue to develop the experience of skills of members to help them understand the risks and challenges in the more complex areas of the Council's business.



---

# Value for Money

## Scope of work

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 a 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 three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that the Council's financial management and control procedures are robust. However, 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.. It is too early to assess how effective they will be.

The Council's process for financial forecasting and developing financial assumptions is robust. Financial plans are regularly reviewed and include effective use of earmarked reserves and contingencies to manage financial risks. The two biggest internal risks to the Council's finances are the increasing costs of adult care and the financial risk posed by the Wichelstowe development. Both of these have been highlighted in the Council's new transformational change programme, but the success of the measures being taken is yet to be determined.

The financial risk posed by the Wichelstowe project is significant. The cost of infrastructure on the site is currently not being reimbursed by proceeds from the sale of houses. So far the impact of the interest on debt raised to fund the development has been reduced by money paid from the original developers but this is running out. The Council has carried out a full review of the project master plan and recently appointed new property advisers to help it find a new joint venture development partner to eliminate or minimise the financial risk. If a development partner is not identified or the liability is not fully taken by a partner, the Council's future interest burden will be significant.

---

# Value for Money

In 2012/13 a number of risks arose in relation to the Council's subsidiaries. Swindon Commercial Services Ltd (SCS), had not been able to provide income streams in line with the budget assumptions and Thamesdown Transport Ltd, is also not meeting revenue levels set out in the business plan and the budget contribution to the Council has been reduced. These risks are being closely managed, including a decision to bring the majority of SCS services back in house.

The Medium Term Financial Plan includes assumptions about the future of the Council's arms length bodies and the Witchelstowe development which should be closely monitored

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 details are provided in our Financial Resilience report issued in September 2013.

## **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 work highlighted 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 one of these areas and is therefore one of the key transformation projects.

## **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.

---

## Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

We have completed our work on the Business Rates and Pooling of Housing Capital Receipts grant claims. Both were certified by the relevant deadline, and without amendment. Our work on the Teachers' Pensions and Housing and Council Tax Benefit claims continues

# Certification of grant claims and returns

## Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns Business Rates and Pooling of Housing Capital Receipts grant claims for the financial year 2012/13 relating to expenditure of £103.4 million. Our work on two further claims (Teachers' Pensions and Housing and Council Tax Benefit) continues

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

The key messages from our certification work to date are summarised in the table below. Further details will be provided in our certification report which will be issued in January 2014.

## Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	Both claims submitted by the relevant deadline. One claim certified with an amendment.	●
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications</b>	One claim (Pooling of Housing Capital Receipts) certified with an amendment	●
<b>Supporting working papers</b>	Working papers have been of a good standard.	●

# Appendices

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

## Fees

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

We have not yet completed our grant certification work.  
We will report the final fee in our Grant Certification  
Report.

## Fees for other services

Service	Fees £
None	Nil

## Reports issued

Report	Date issued
Audit Plan	23 April 2013
Audit Findings Report	24 September 2013
Certification report	Not yet issued
VfM – Financial Resilience Report	24 September 2013
Annual Audit Letter	October 2013



© 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)**