

# The Audit Plan for Swindon Borough Council

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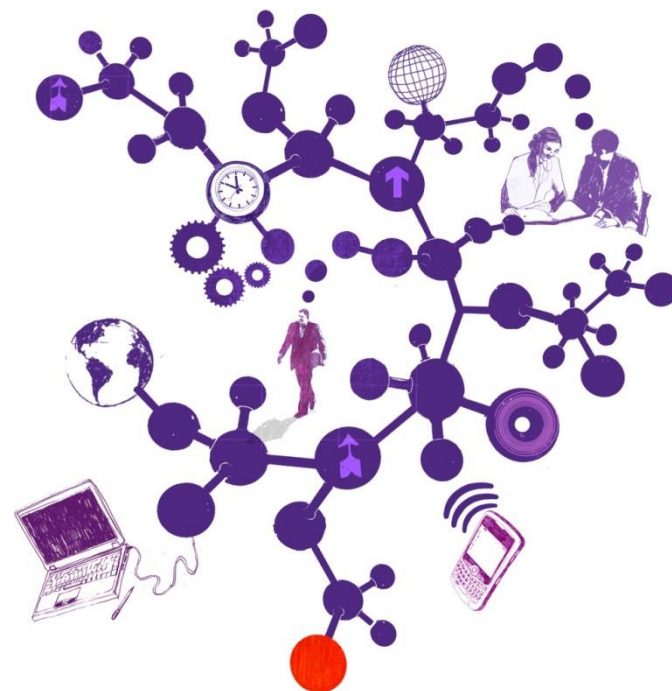
**Year ended 31 March 2014**

31<sup>st</sup> March 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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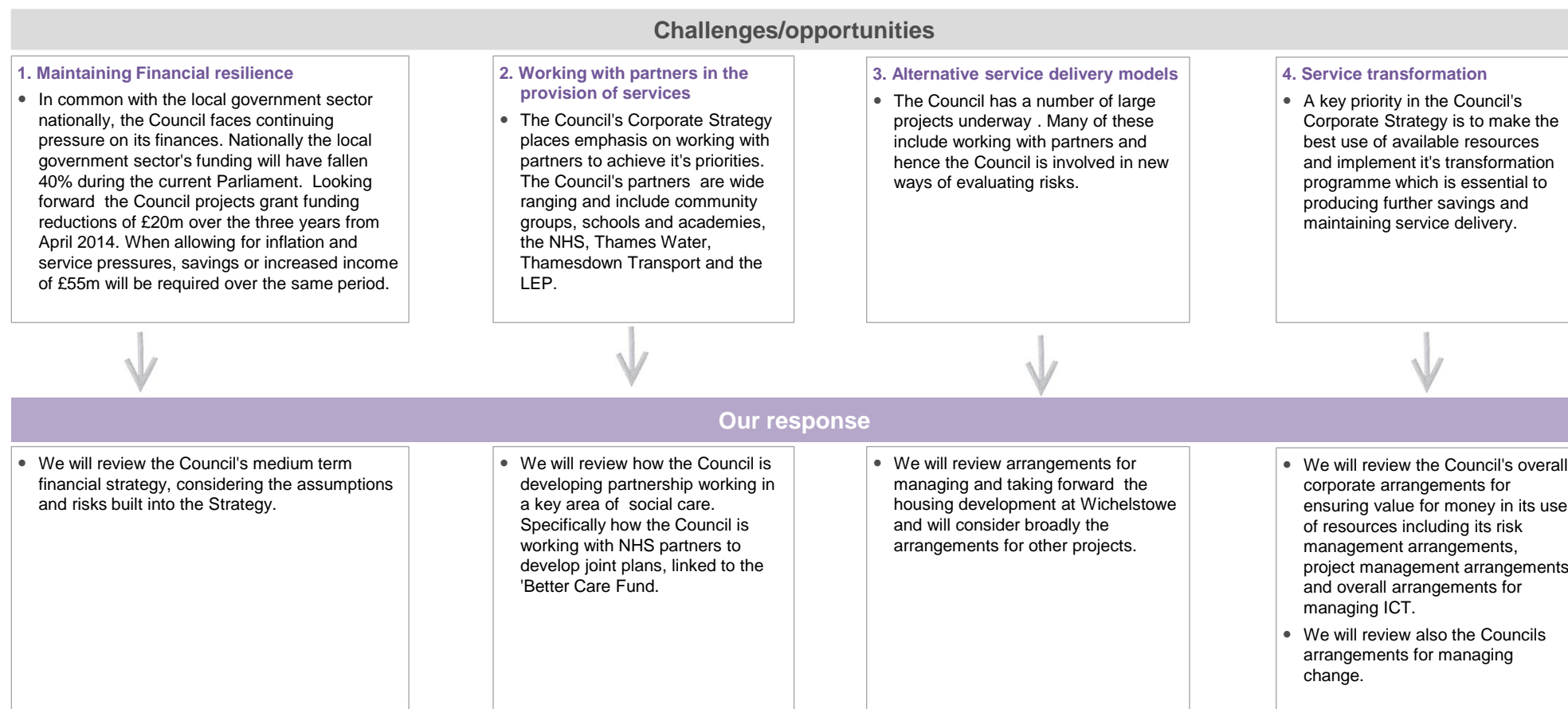
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice
- Clarification of Code requirements around PPE valuations
- Changes to NDR accounting and provisions for business rate appeals
- Specifically at Swindon the Council is reclassifying a large portion of it's assets under construction re-designating them operational assets

### 2. Legislation

- Local Government Finance settlement
- Welfare reform Act 2012

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

### 5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

## Our response

We will ensure that

- the Council complies with the CIPFA Code of Practice and changes to accounting requirements in respect of NDR and PPE through discussions with management and our substantive testing
- assets under construction where they are reclassified as operational are accounted for correctly

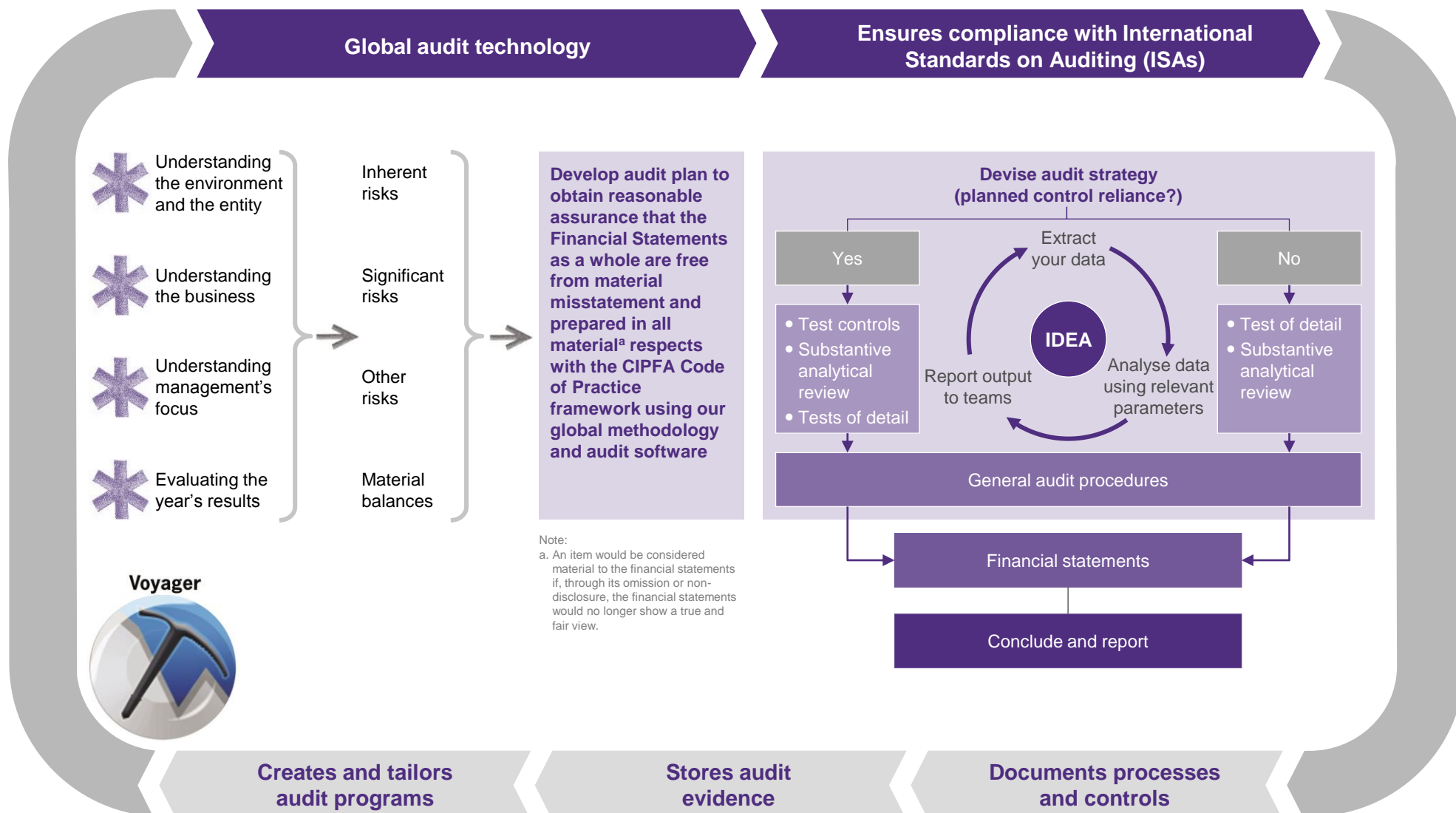
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VFM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify grant claims and returns in accordance with Audit Commission requirements

# Our audit approach



# Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There include two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Testing of accounts receivable invoices</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Testing of journal entries up to month nine (31<sup>st</sup> December 2013)</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> </ul>	<ul style="list-style-type: none"> <li>Review of unrecorded liabilities and post year end payments to ensure all liabilities identified.</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> </ul>	<ul style="list-style-type: none"> <li>Trend analysis of payroll expenditure by month to identify any significant variances.</li> <li>Review of post year end payments to ensure all payroll expenditure included.</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> <li>System parameters confirmed to DWP information.</li> </ul>	<ul style="list-style-type: none"> <li>Housing Benefit (HB) COUNT certification work to cover the following: <ul style="list-style-type: none"> <li>Confirmation that correct software has been used during the year.</li> <li>HB Analytical review</li> </ul> </li> <li>sample testing on material benefit types</li> </ul>
Housing Rent Revenue Account	Rental revenue transactions not recorded	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> </ul>	<ul style="list-style-type: none"> <li>Predictive analytical review of total housing rent income</li> <li>For a sample of HRA properties, confirming income has been received in 2013/14</li> </ul>
Property, Plant & Equipment	PPE activity not valid  Assets under construction (AUC) not correctly classified	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of PPE additions and disposals</li> <li>Comparison of actual spend against the capital programme</li> <li>Review of the Capital Financing Requirement calculation</li> <li>Review the accounting entries of any reclassification from AUC to Operational Assets for reasonableness.</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Completed walkthrough of system and associated controls</li> </ul>	<ul style="list-style-type: none"> <li>Assessing the work of the professional valuer</li> <li>Reviewing the accounting entries for revaluations</li> </ul>



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# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Swindon Commercial Services	Yes	Comprehensive	Significant risks in relation to revenue recognition and management override of controls	Liaison with component auditors to ensure adequate work in relation to significant risks
Thamesdown Transport	No	Analytical	None	Analytical review of results and explain any significant variances
Forward Swindon	No	Analytical	None	Analytical review of results and explain any significant variances

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

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

We have undertaken an initial risk assessment to identify areas of risk to our VfM conclusion. We will continue to review the following areas in more detail during the year prior to giving our VFM conclusion:

- medium term financial planning;
- financial governance and control;
- arrangements for improving efficiency such as understanding costs and managing savings plans;
- arrangements for the Wichelstowe Joint Venture Partnership;
- progress on the transformation programme;
- progress in establishing the better care fund plan with the CCG; and
- arrangements for prioritising resources including leadership and challenge, consulting with stakeholders.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. Where appropriate we will issue a separate report in respect of VfM after discussing our findings with officers.

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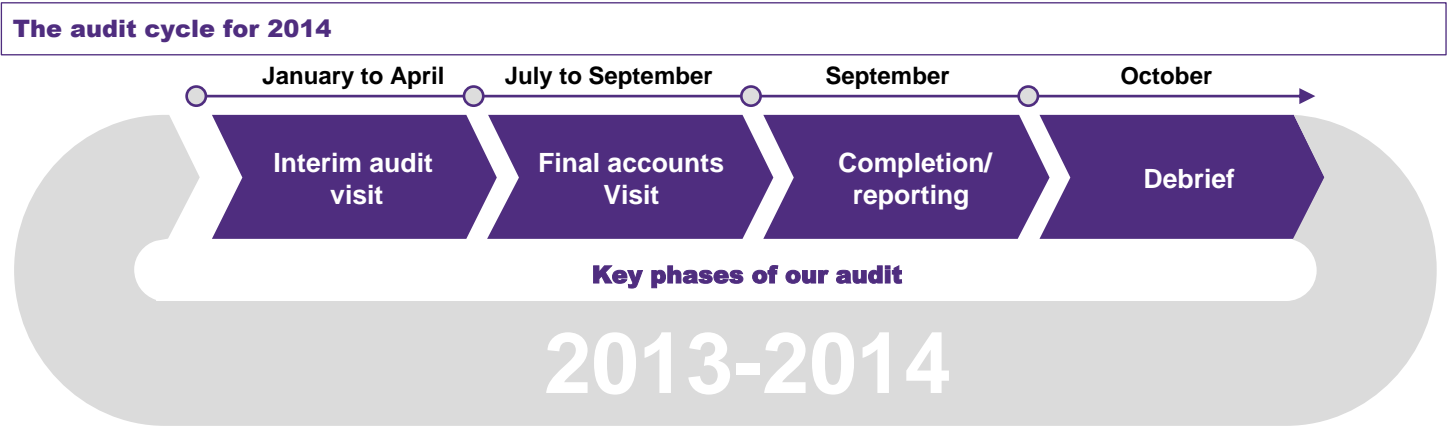
# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

	Work performed	Conclusion
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We also have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.	No issues have been identified that we wish to highlight for your attention.
Early substantive testing	<ul style="list-style-type: none"> <li>• Property Plant and Equipment – confirmation of the existence of a sample of land and buildings</li> <li>• Other Revenues – completion of attribute testing on the occurrence and valuation of a sample of accounts receivable invoices raised in periods one to nine.</li> <li>• Operating Expenses - completion of attribute testing on the occurrence and valuation of a sample of operating expense payments made in periods one to nine.</li> <li>• Employee Remuneration - completion of attribute testing on the occurrence and valuation of a sample of payroll transactions raised in periods one to nine.</li> </ul>	No errors identified at this stage. Further testing is required to ensure coverage of the whole financial year.
Value for money	We have reviewed arrangements for joint working with the NHS and commenced our work reviewing project management arrangements.	We have no matters to report currently.

# Key dates



Date	Activity
December 2013	Planning
January to April 2014	Interim site visit
April 2014	Presentation of audit plan to Audit Committee
July to September 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to those charged with governance Audit Committee
September 2014	Sign financial statements opinion and VfM conclusion

# Fees and independence

## Fees

	£
Council audit	170,100
Grant certification	16,700
<b>Total fees (excluding VAT)</b>	<b>186,800</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
At present there is nothing to report.	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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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