

The Audit Findings for Swindon Borough Council

Year ended 31 March 2014

September 2014

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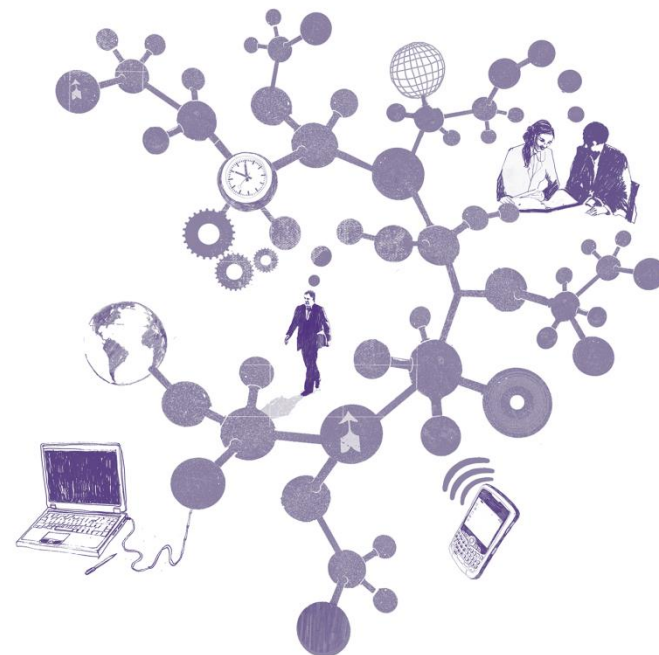
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Swindon Borough Council's ('the Council') financial statements for the year ended 31 March 2014. 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 significantly our planned audit approach, which we communicated to you in our Audit Plan presented at the Audit Committee's meeting on 15th April 2014.

Our audit is substantially complete although we are finalising our work in a number of areas including:

- completing our work on some income and expenditure samples, including assets under construction
- obtaining and reviewing the final management letter of representation
- review of final version of the Accounts and Annual Governance Statement and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any material adjustments affecting the Council's reported financial position. However we have identified a number of large amendments relating to capital and property plant and equipment. (details of adjustments are recorded in section 2 of this report). In response to our recommendations last year the Council has reviewed its balance of £68m relating to Wichelstowe held in assets under construction. Of this total £55m was transferred to infrastructure assets and will be depreciated from now on. Some £13.8m was written off, comprising:

- £7.1m relating to a section 106 payment by the Council to itself
- £6.6m of settlement and legal fees which were capitalised but do not contribute to the current value of the asset.

Following this year's audit the accounting entries relating to the Section 106 grant have been completely reversed out of the accounts.

In addition we have also identified a number of adjustments to improve the presentation of the financial statements.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

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

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts 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.

Further 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 Board 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 Board 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
12th September 2014

Section 2: Audit findings

01. Executive summary

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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 15th April 2014. We also set out the adjustments to the financial statements arising 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 15th April 2014 except with regard to Swindon Commercial Services where we have taken a more targeted review of their accounts focussing on revenue. This reflects the reduction in activity undertaken by SCS following the insourcing of activities to the Council.

Audit opinion

We anticipate that we will provide the Council with an unqualified 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.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Testing of accounts receivable invoices • Review and testing of revenue recognition policies • Testing of material revenue streams 	Our audit work has not identified any issues in respect of revenue recognition. (We are still completing some testing of samples of revenue streams but anticipate completing this by 12 th September).
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Testing of journal entries up to month nine (31st December 2013) completed at our interim audit • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries month ten to twelve • Review of unusual significant transactions 	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. Any recommendations arising, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively tested unrecorded liabilities and post year end payments to ensure all liabilities are identified 	<ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> Completed walkthrough of system and associated controls Trend analysis of payroll expenditure by month to identify any significant variances. Review of post year end payments to ensure all payroll expenditure included 	<ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Completed walkthrough of system and associated controls System parameters confirmed to DWP information. Housing Benefit (HB) COUNT certification work to cover the following: <ul style="list-style-type: none"> Confirmation that correct software has been used during the year HB Analytical review sample testing on material benefit types 	<ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing Rent Revenue Account	Rental revenue transactions not recorded	<ul style="list-style-type: none"> Completed walkthrough of system and associated controls Predictive analytical review of total housing rent income For a sample of HRA properties, confirming income has been received in 2013/14 	<ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	<p>PPE activity not valid</p> <p>Assets under construction (AUC) not correctly classified</p>	<ul style="list-style-type: none"> Completed walkthrough of system and associated controls Substantive testing of PPE additions and disposals Comparison of actual spend against the capital programme Review of the Capital Financing Requirement calculation Review the accounting entries of any reclassification from AUC to Operational Assets for reasonableness. 	<ul style="list-style-type: none"> The balance of assets under construction brought forward incorrectly included £7.1m relating to section 106 grant which the Council paid to itself. The entries relating to this have been reversed out of the accounts. They were made some six years ago and do not comply with normal accounting practice. We identified further misstatements in relation to disposals. These are explained in the summary of adjusted misstatements.
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Completed walkthrough of system and associated controls Assessing the work of the professional valuer Reviewing the accounting entries for revaluations 	<ul style="list-style-type: none"> We noted one issue. The Council re-valued some community assets during the year down to a nil value with the draft accounts being amended. But the accounts Code requires such assets to be valued at historic cost. Officers have reviewed this and amounts totalling £6.532m were written back into the accounts reflecting the carrying value of the assets held by the Council.



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	Work completed	Assurance gained & issues raised
Swindon Commercial Services	Yes	Targeted	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.	Our audit work has not identified any significant issues.
Thamesdown Transport	No	Analytical	None	Analytical review of results and explain any significant variances.	Our audit work has not identified any issues.
Forward Swindon	No	Analytical	None	Analytical review of results and explain any significant variances.	Our audit work has not identified any issues.

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
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are summarised in Policy B of the accounting statements. Revenue from sale of goods and the provision of services is matched to the financial year in which substance of the transaction takes place. 	<ul style="list-style-type: none"> The adopted policies fit with the local Authority Account Code. In preparing the accounts officers make judgements about matching income to the relevant year which we have tested as part of our audit. No matters arose. The Council should consider whether to amend its policy to make reference to specific income streams such as local tax revenue and housing rents. 	 Accounting policy appropriate
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> the charge in the accounts for depreciation of assets pension fund valuations and settlements revaluations Impairments Property Plant & Equipment (PPE) valuations. 	<ul style="list-style-type: none"> Internal audit noted in their testing that depreciation has been charged in 2013/14 on PPE disposed of in the year. This is contrary to the Council's accounting policy which is to not depreciate in the year of disposal. The depreciation charged in the year was £1.04m. PPE Valuations are discussed below 	 Some scope for improvement

Assessment



● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient



● Accounting policy appropriate but some scope for improved disclosure

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
Judgements and estimates - PPE	<ul style="list-style-type: none"> Accounting policy Q on PPE sets out the Council's approach to valuing assets. The Council has a rolling programme of valuations over 5 years. The Council's Valuers confirm they undertake more frequent reviews if there is evidence the carrying value is materially misstated. 	<ul style="list-style-type: none"> This approach is similar to many other authorities. Whilst, this rolling programme does not meet the Code's requirement to value items within a class of PPE simultaneously the method is acceptable provided that: <ul style="list-style-type: none"> the Council can demonstrate that the PPE balance at 31st March 2014 is not materially different to the fair or market value. We have requested evidence from the Council's Valuers to prove that the PPE balance at 31st March 2014 is not materially different to the fair or market value. We are still awaiting this. 	 Some scope for improvement
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	 Accounting policy appropriate

Assessment

 Marginal accounting policy which could potentially attract attention from regulators
 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

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 adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	<p>Cash balance</p> <p>The cash balance includes an amount of £221,000 relating to EOTAS (Education other than at school), this should be included in school reserves. Cash will increase and school reserves will increase.</p>	nil	221	nil
2	<p>Infrastructure impairment</p> <p>An impairment of £13,848,000 has been charged to infrastructure assets reflecting the removal of costs relating to the Wichelstowe housing development, which were deemed not part of the cost of bringing the asset into use. This impairment included £7,134,000 of expenditure relating to a 106 'grant' which the Council paid to itself. This expenditure should not have been included in the cost of the asset and has been removed from opening balances. Expenditure of £3,995,000 on Wichelstowe has been financed from this sum. Therefore the accounting entries relating to this transaction have also been reversed. The net adjustment was a credit of £3,139,000 to the capital adjustment account (an unusable reserve) and a debit to creditors for the same amount.</p>	3,139	3,139	0

Adjusted misstatements

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
3 The Council has overstated the loss on disposal of Council houses in note 10 of the accounts. The Council is allowed to retain a proportion of capital receipts to build new houses and this need to be reflected in the accounts, £886,000. The net spend recorded in the HRA reduced by this amount.	886	nil	
4 The Council has incorrectly shown an impairment on a landfill site as a disposal. Expenditure of £3,600,000 has been reclassified.	3,600 credit to cost of service 3,600 debit to other operating expenditure	nil	
5 Some community assets were incorrectly impaired to nil value, as they should have remained in the balance sheet at historic cost. The value of the impairment was £6,532,000	-6,532 cost of services	6,532 PPE	

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 Disclosure		Leasing note	<p>Total payments due to the Council changed from £4,738,000 to £16,775,000 because the draft accounts did not include details of all lease payments due.</p> <p>Also operating leases held by the Council, totalling £5,307,000, which related to homelessness accommodation were not originally included in the draft accounts. They have now been added to the note.</p>
2 Disclosure	N/A	Related parties note	Additional disclosure agreed to refer to the Fire Authority and SEQOL.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed 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
<p>1 Schools Cash</p> <p>There are historic differences on the schools account reconciliation. No additional differences arose in 2013/14. Part of this, £700,000 relates to schools that have become Academies. The amounts is showing currently as a credit against the cash balance in the balance sheet. Removing it would increase the cash balance in the balance sheet.</p>	902	902	<p>Previous work suggested the imbalances come from prior year debits/credits hitting revenue when it should have hit the cash code or vice versa, and impacts our ledger reported cash position only, not the physical cash held by schools in their accounts.</p> <p>Necessary amendments need to be reviewed with the Children's Finance Team to ensure there is no other impact to the accounts and agreed with the Board</p> <p>Director: Resources</p>

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. In undertaking our work we liaised closely with Internal Audit who completed some of the testing and assisted in agreeing recommendations. The matters reported below have been raised also in Internal Audit reports.

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

	Assessment	Issue and risk	Recommendations
1.	 Deficiency	<ul style="list-style-type: none"> Review of user access rights <p>User access accounts and associated permissions within the network were not being routinely reviewed by IT management for appropriateness</p>	<ul style="list-style-type: none"> Formal reviews be undertaken by management to ensure that access is granted on the basis of a user's level of responsibility.
2.	 Deficiency	<ul style="list-style-type: none"> Segregation of duties in relation to Oracle <p>The council has outsourced the development of Oracle to Capita. A review of access rights indicated that system developers have administrator access to the live system. This could result in un-authorized changes going undetected by management.</p>	<ul style="list-style-type: none"> The Council restricts system developer access to the IT development and test environment.
3.	 Deficiency	<ul style="list-style-type: none"> Back up testing <p>The Council tests its IT systems to ensure they can be recovered in the event of a failure, but there is no recorded schedule to confirm and ensure all systems and applications are periodically tested.</p>	<ul style="list-style-type: none"> All high risk and critical applications and systems are tested quarterly to ensure they are recoverable.
4.	 Deficiency	<ul style="list-style-type: none"> Change management procedures <p>There are no formal local change management procedures for payroll. This could result in changes not being effectively administered.</p>	<ul style="list-style-type: none"> Change management policies and procedures should be developed and approved.

Assessment

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

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.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from management for not amending the financial statements for the items identified on page 18.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed in the amended accounts.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted the Council has satisfactory arrangements for exercising oversight and control of its financial arrangements. The Council has detailed arrangements for developing its financial plan. There remain inherent risks to the Council's medium term financial resilience arising from the unprecedented pressure on local authority budgets.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted the Council continues to assess demand for services and prioritizes its resources into services it is required by statute to provide. The Council continues to consider a wide range of options for developing savings and efficiency plans.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	<p>We have considered key indicators of performance including:</p> <ul style="list-style-type: none"> - Liquidity; review of the 2013-14 accounts indicates the following working capital ratio: current assets £98,566k/current liabilities £72,062k = 1.37. Benchmarking indicates this ratio is in line with the statistical near neighbours . - Borrowing levels; are comparable with similar authorities. The Council has established Treasury Management policies setting out its borrowing intentions. - Workforce indicators; in 2013/14 7.69 days per employee were lost on average to sickness absences. this compares to the average for local authorities of 8.4 days per year. - Performance against budgets; 2013/14 revenue expenditure was within budget, officers reported this was the eighth year this had been achieved. Projected spend on capital schemes is in line with the overall budget. Schemes frequently span a number of years. There was some slippage in 2013/14, £6m on schools and £12m on section 106 schemes reflecting delays in programme works. Officers reported they were working with budget managers to improve in year forecasting in 2014/15. - Levels of reserves; based on our review of the 2013/14 accounts, comparative data and budgets, the Council is maintaining a consistent level of reserves taking account of the risk assessment reported by the Council's statutory financial officer. - Schools balances; these totalled £6.2m at 31st March 2014. This was comparable to the balances held by Swindon last year. Based on our review of similar councils, Swindon's school balances are comparable to the levels held elsewhere. 	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Strategic financial planning	<p>The Council goes through a detailed process in developing its financial plans. Budget proposals are consulted on and considered at various draft stages. Reports include details by department showing cost pressures, provisions for inflation, savings and new income.</p> <p>For 2014/15, savings not impacting front line services of £7,362k and changes to services of £4,789k were identified and built into the budget. Risks have been evaluated in relation to all these plans and the impact on reserves considered. Detailed plans are in place to deliver £16m of the £18m of savings required for 2015-16 with further work on-going to identify the remaining £2m gap.</p> <p>The Council has a strong track record of containing its expenditure within budget. Nevertheless the local government sector faces unprecedented financial challenges over the next 3 years. Swindon's financial plans reflect the complexity of the Council and include a wide range of risks for example from the performance of partners, or grouped companies. The overall rating for strategic financial planning is 'green', as it was last year, but within this the challenge of continuing to deliver savings is seen as an amber risk. Members need to continue to show strong leadership in decision making to ensure the Council remains financially resilient.</p>	Green	Green
Financial governance	<p>Reports to Members explain the financial context. Members receive regular budget monitors as well as other reports on key financial issues such as treasury management. Senior managers are fully engaged in the financial processes.</p>	Green	Green
Financial control	<p>No material or unexpected service pressures emerged during the year. Council services delivered their budgets assisted by the early implementation of 2014/15 budget savings. There was no requirement for emergency funding to be identified during the year.</p> <p>The Council's Internal Audit Section substantially complies with public sector internal audit standards and reviews key areas. Internal audit has confirmed controls are satisfactory.</p> <p>The Council continues to maintain and review risk registers.</p>	Green	Green
Prioritising resources	<p>The Council continues to review resource allocation according to its priorities. For example an assessment of social care needs was completed recently and additional funding was allocated to this service in the 2014/15 budget.</p>	Green	Green
Improving efficiency & productivity	<p>Reports to Members identify at service level required savings, which are then built into the Council's budgets. Some £15m of savings were built into the 2013/14 budget. The Council continues to consider a wide range of options to improve efficiency, including restructuring service departments, such as the changes around Swindon Commercial Services, as well as changes to charging for services and developing partnership working.</p>	Green	Green

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission and additional indicators identified by ourselves. Of the 32 areas rated, all were green except one shown below which we have noted as a residual risk to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Focus of the medium term financial plan and savings plans	The Council continues to face unprecedented financial pressures with the need to deliver savings likely to continue into the medium term. The Council has identified significant financial savings for 2015/16 but £2m has yet to be identified. The position for 2016/17 is much more challenging with further savings of £17-18m still to be identified. In the light of the national funding constraints and the complex risks faced by the Council in delivering diverse services through a variety of methods we consider this area is medium risk.	Amber

We identified a number of areas for specific review in 2013/14 and summarise our findings below:

Residual risk identified	Summary findings
<p>Alternative service delivery models</p> <p>The Council has a number of large projects underway . Many of these include working with partners and hence the Council is involved in new ways of evaluating risks.</p>	<p>In addressing this risk we reviewed arrangements for managing and taking forward the planned housing development at Wichelstowe. The Council has incurred infrastructure and other costs of £65m in relation to the site, although much of this is historic after a previous partner withdrew from the scheme.</p> <p>The Council is now going through a complex tendering process to appoint a private sector partner to develop Wichelstowe. The Council set a timetable for the process aiming to appoint a partner by the autumn of 2014. The Council has sought support from professional advisors and developed arrangements for managing and reporting risks. A complex model has been developed for assessing bids.</p> <p>Overall the Council has established suitable governance arrangements. However, there remain significant risks. For example changes in economic conditions may result in delays to construction possibly leading to additional costs for the Council. The financial viability of the scheme makes assumptions regarding build rates, inflation and sales values. The Council has sought to address risks through the tendering process for example through discussions with bidders and sensitivity analysis.</p> <p>The site will be developed over a number of years and the Council will need to ensure that it has sufficient capacity on the proposed joint venture board to ensure the Council's interests continue to be protected.</p>
<p>Service transformation</p> <p>A key priority in the Council's Corporate Strategy is to make the best use of available resources and implement it's transformation programme which is essential to producing further savings and maintaining service delivery. We considered progress with the transformation programme a specific risk.</p>	<p>We conducted a high level review of the progress of the five transformational projects, all of which were established in 2013/14, in order to assess the extent to which they are on course to deliver the required savings.</p> <p>We found that the Adults, Leisure and Street-smart projects had all progressed well and had delivered substantial savings broadly in line with plan. We also found that appropriate high level governance and management arrangements appeared to be in place. However, there are risks associated with the remaining two projects:</p> <ul style="list-style-type: none"> • We found that the progress from the Strengthening Families project and the contribution to savings has been below expectations. The project is currently being refocused and there is a risk that the planned £1.7m recurrent saving over two years, will not be fully delivered. • We found that the original planned contribution from the Economic Growth project will not be achieved – the planned benefit from NNDR growth has been significantly less than expected largely due to the impact of appeals. However there has been some good progress , for example the development of a Growth Strategy (in partnership with Wiltshire County Council and the Wiltshire LEP) and the establishment of a Skills and Employment Board and sub-strategy. <p>Overall the Change programme is progressing well in most areas, it has delivered significant savings to date and will continue to be a significant contributor over the next two years.</p> <p>The Council should review its plans for economic growth to ensure that assumptions remain valid.</p>

Residual risk identified	Summary findings
<p>Better Care Fund (BCF)</p> <p>There was a risk the CCG and Council would not develop joint plans to address the requirements of the Health and Social Care Integration Transformation Fund and for sign off by the Health and Well Being Board by March 2014</p>	<p>We reviewed the work the Council is doing with the Clinical Commissioning Group (CCG) to develop the better care fund plan.</p> <p>Joint working with Health is well established in Swindon and the BCF initiative is intended to further formalise the joint working projects. We found the Council was making satisfactory progress developing its BCF plan. The CCG, the social care provider and local NHS Trusts have been involved in the development of the Plan. The Plan protects social services and includes Key Performance Indicators. Arrangements provide also for seven day services. Overall, arrangements provide for a joint approach.</p>

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 provision of non-audit services.

Fees

	Per Original fee letter £	Actual fees £
Council audit	170,100	171,170
Grant certification	16,700	16,700
Total audit fees	186,800	187,870

There is additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary councils and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
Independent business review of wholly owned subsidiary of the Council	20,000

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).

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

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Accounting Policies The Council should consider whether to amend its policy to make reference to specific income streams such as local tax revenue and housing rents.	Improvement	Officers will consider for inclusion in next year's accounts taking account of guidance issued each year from CIPFA.	Finance Manager April 2015
2	User access rights Formal reviews be undertaken by management to ensure that access is granted on the basis of a user's level of responsibility.	Deficiency	Agreed. Access review process to be developed in conjunction with Line Managers and ICT staff as part of a wider review administration of access controls.	Head of ICT December 2014
3	Segregation of duties in relation to Oracle The Council restricts system developer access to the IT development and test environment.	Deficiency	Access is required to the live system to support certain support activities . As a compensating control, developer access/activity on the Live system will be monitored through system logging.	Oracle Team Leader December 2014
4	Back up testing All high risk and critical applications and systems are tested quarterly to ensure they are recoverable.	Deficiency	Agreed; a standard policy and process for back ups will be produced linked to the Council's forthcoming Information Security Policy refresh. Quarterly back up testing is currently being discussed with client teams. Payroll is now tested weekly.	Head of ICT December 2014

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Change management procedures Change management policies and procedures should be developed and approved.	Deficiency	Agreed	Contract Manager in conjunction with Payroll Manager and HR & Payroll Business Manager December 2014
6	School account balances Unresolved amounts on school reconciliations should be agreed with the schools and the amounts removed and charged or written off as appropriate.	Deficiency	Agreed. Officers anticipate the differences relate to transactions on the Council's ledger not the school accounts. Officers will investigate before changing the accounts.	Finance Manager December 2014
6	Wichelstowe The Council will need to ensure that it has sufficient capacity on the proposed joint venture board to ensure the Council's interests continue to be protected.	Improvement		
7	Service transformation The Council should review its plans for economic growth to ensure that assumptions remain valid.	Improvement		

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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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 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure 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 2013/14.

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 Board Director Resources and auditor

As explained more fully in the Statement of the Officer's Responsibilities, the Board 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 Board 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 and the Group explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2014 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 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory forewords 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 October 2013, 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 2014.

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 October 2013, 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 2014.

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.

OR

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Elizabeth Cave

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
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XX September 2014



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