

# The Audit Plan for Swindon Borough Council

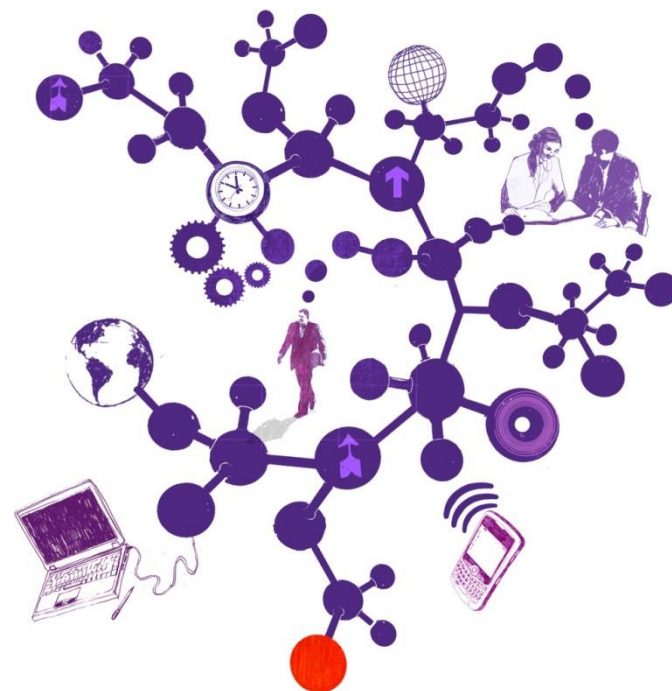
**Year ended 31<sup>st</sup> March 2015**

4<sup>th</sup> June 2015

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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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# Up-date to the Audit Plan

Our 2014/15 Audit Plan was presented to the Audit Committee at its meeting on 21<sup>st</sup> April 2015. Since then we have made one amendment to our Plan which were are required to report to you.

In our initial Plan we identified Welfare Expenditure (Housing Benefits) as a transaction stream where there is a reasonably possible risk of material misstatement. This assessment reflected the large volume and cumulatively the large value of transactions. Having considered further our risk assessment it is our expectation that there is a good control environment and there has not been a history of material errors or issues with Welfare payments in the past. Therefore Welfare is no longer identified as a risk on page 9.

However, we are still completing work on this area to support our Opinion on the Council's Accounts including substantive testing and review of controls on the computer system. This work is being completed in June. On October, after we have given the opinion on the Council's accounts we will complete further testing to enable us to certify the Housing Benefit Grant claim.

Otherwise this Plan is unchanged from the Audit Plan presented in April.

# 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.

## Challenges/opportunities

### 1. LG Finance Settlement and Financial Planning

- The local government spending settlement showed local authorities nationally are facing a cash reduction in their spending power of 6% in 2015-16.
- Locally Swindon currently faces a budget gap of £20m for 2016/17, although the Council has a good track record of identifying savings.
- However, in common with all local authorities Swindon are facing increasing demands for services, for example in adult social care services



### 2. Service transformation and Commissioning

- Moving from the provision to the commissioning of services
- Delivering efficiency savings through improved procurement



### 3. Wichelstowe

- The Council is tendering for a partner arrangement to take forward a major housing development. A complex financial model was developed to support the tendering. It will involve setting up a joint venture partnership between the Council and the key partner. The scheme is innovative and highly material. The Council hopes to generate significant funds over 20 years also recovering debt relating to costs already incurred. The scheme, due to its complexity and scale, inevitably contains risks.



## Our response

- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will review the progress you have made in delivering your transformation programme.
- We will review the transfer of the Council's leisure facilities to an external provider.

- We will review tender documentation and the governance arrangements around the tendering process.

# 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
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 10,11 and 12)

### 2. Legislation

- Local Government Finance settlement

### 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 requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- schools are accounted for correctly and in line with the latest guidance
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

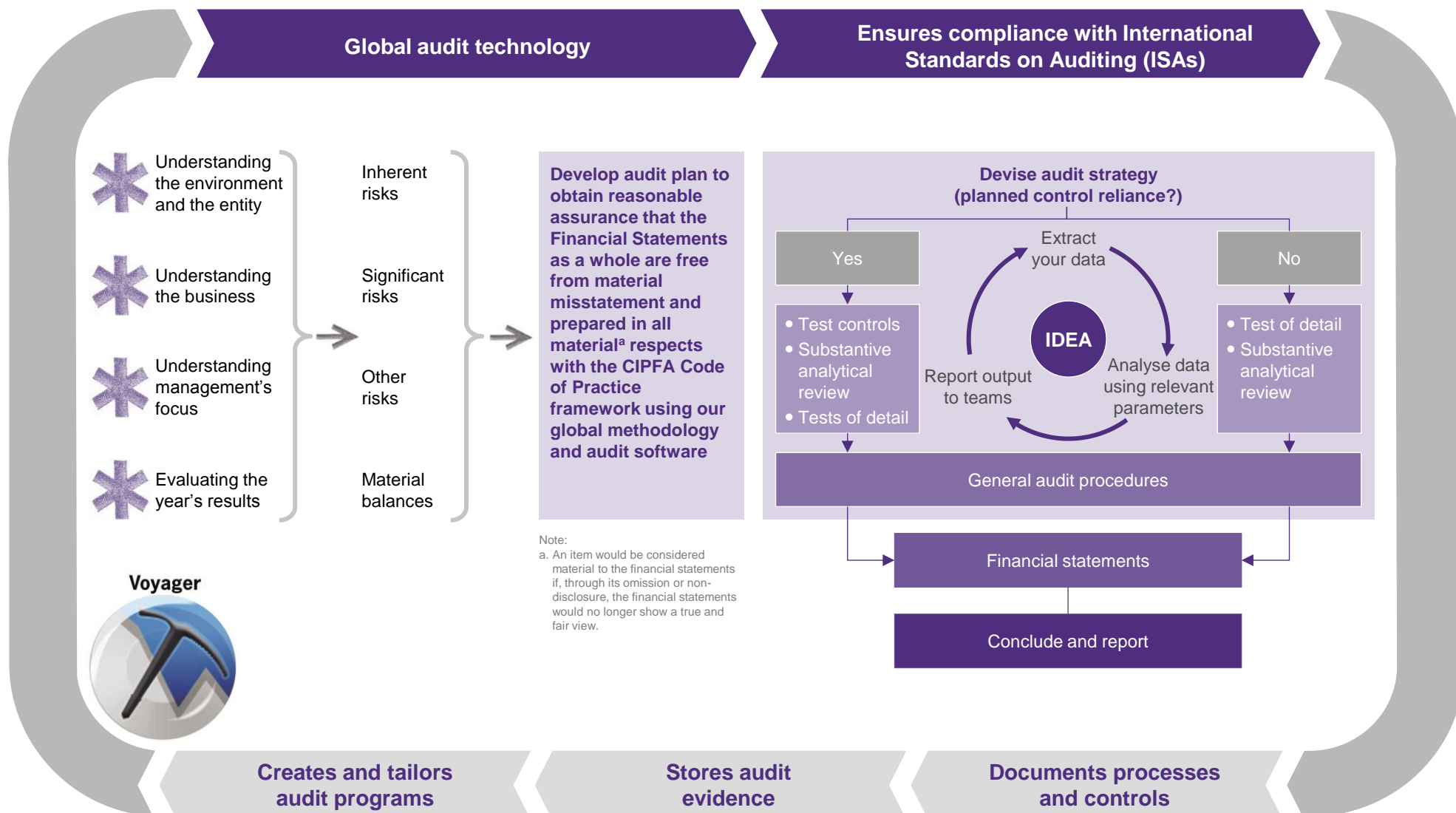
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- 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 2014/15 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 the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

# 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 are 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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Swindon Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as a significant risk. However work completed and planned includes:</p> <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Judgemental testing of material accounts receivable invoices</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Judgemental testing of material revenue streams</li></ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Testing of journal entries from period one to nine</li></ul> <p><b>Further work planned:</b></p> <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 risks	Description	Audit Approach
Operating Expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Completed walkthrough of system and associated controls</li><li>Testing of operating expenses from period one to nine</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>Review of unrecorded liabilities and post year end payments to ensure all liabilities identified</li><li>Review of accruals</li><li>Determine whether liabilities have been recorded in the correct period</li></ul>
Employee Remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Completed walkthrough of system and associated controls</li></ul> <b>Further work planned:</b> <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>

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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.

*Following the re-structuring of Public Power Solutions (formerly Swindon Commercial Services), none of the Group Companies currently require detailed work. (This was carried out last year in conjunction with the auditors of the Group Company). However, we will still be required to complete analytical review of the accounts of the Group Companies.*

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Public Power Solutions (formerly Swindon Commercial Services)	No	Analytical	N/A	Desktop review performed by GT UK
Thamesdown Transport Limited	No	Analytical	N/A	Desktop review performed by GT UK
Forward Swindon	No	Analytical	N/A	Desktop review performed by GT UK

# 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 a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Financial resilience: the Council continues to face resource pressures with reductions in funding and growing demand for services. We will review the Council's financial plans and the assumptions underpinning them.
- Transformation programme and joint working: the Council is continuing to develop innovative ways of work with partners to improve services and promote value for money. We will review progress with the Council's transformation programme.
- Wichelstowe: we will review the Council's arrangements for taking forward this capital scheme.

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.

# Results of interim audit work

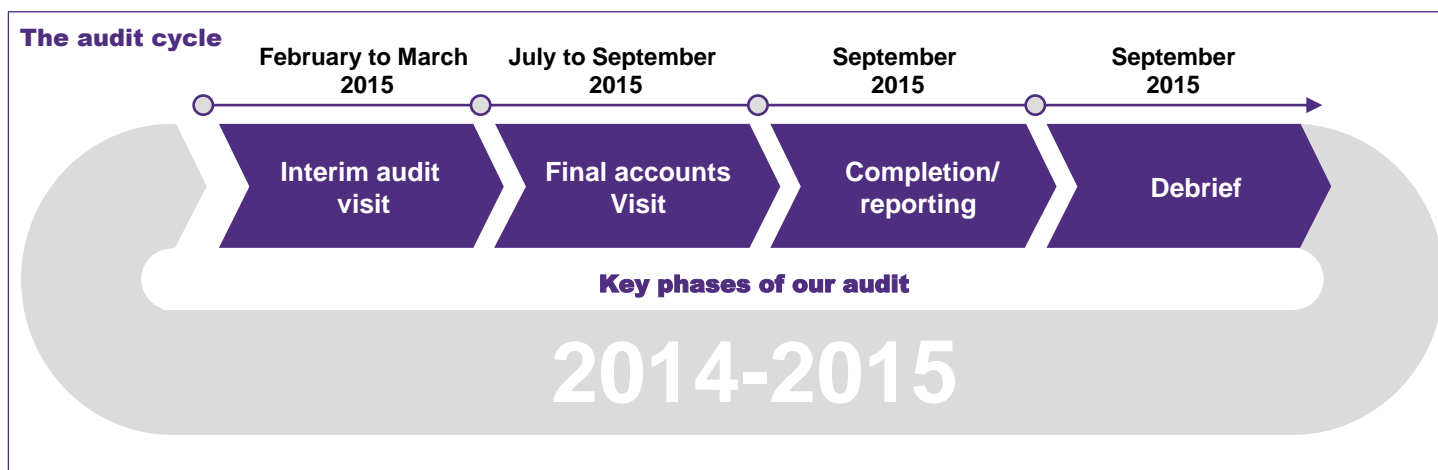
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Findings and Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>We have not identified any material weaknesses impacting on our responsibilities.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p>
Walkthrough testing	<p>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.</p>	<p><b>We have identified one issue which we wish to bring to your attention.</b></p> <p>We identified that for a selected sample of eighteen employees, six contracts of employment were not readily available or were unsigned at the time of testing. Four signed contracts were later traced, while two remain outstanding. We were able to obtain assurance over the existence of employees by confirming NI numbers with HMRC, however, signing contracts is an important governance control.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

## Results of interim audit work cont'd

	Work performed	Findings and Conclusion
Journal entry controls	To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.	<p><b>We have identified two issues which we wish to bring to your attention.</b></p> <p>We identified three senior managers who have access to post journal entries. For the first nine months of the financial year we did not identify any evidence that senior management had exercised the access in order to post journal entries. We would recommend that such access rights are removed during the quarterly review.</p> <p>We also identified that journals over £1.6m require authorisation but we did not identify a control in place by which unauthorised journal postings could be identified. We understand that management are in the process of developing an exception report to address this issue.</p> <p>During our final audit we will test journals posted during the final three months of the financial year.</p>
Early substantive testing	<p>Other Revenues – completion of testing on the occurrence and valuation of a sample of accounts receivable invoices raised from period one to nine</p> <p>Operating Expenses - completion of testing on the occurrence and valuation of a sample of operating expense payments from period one to nine</p> <p>Employee Remuneration - completion of testing on the occurrence and valuation of a sample of payroll transactions raised from period one to nine</p>	No errors identified at this stage. Further testing is required to ensure coverage of the whole financial year.

# Key dates



Date	Activity
December 2014	Planning
February to April 2015	Interim site visit
April 2015	Presentation of audit plan to Audit Committee
July to September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Board Director of Resources
September 2015	Report audit findings to those charged with governance Audit Committee
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	171,170
Grant certification	18,000
<b>Total fees (excluding VAT)</b>	<b>189,170</b>

## Fees for other services

Service	Fees £
Place analytics work	7,800
Review of Teachers Pensions Agency return	3,000

### 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

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### 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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# Appendices

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# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend that all employees are required to sign a contract upon joining, which is retained securely by Swindon Borough Council.	Medium		
2	We recommend that a control is put in place to identify unauthorised journals above £1.6m. We understand that management plan to implement an exception report for journals above the authorisation limit.	Medium		
3	We recommend that senior management do not have access to post journal entries, in order to maintain segregation between posting duties and review duties.	Low		



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