

# The Audit Findings for Swindon Borough Council

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**Year ended 31 March 2015**

September 2015

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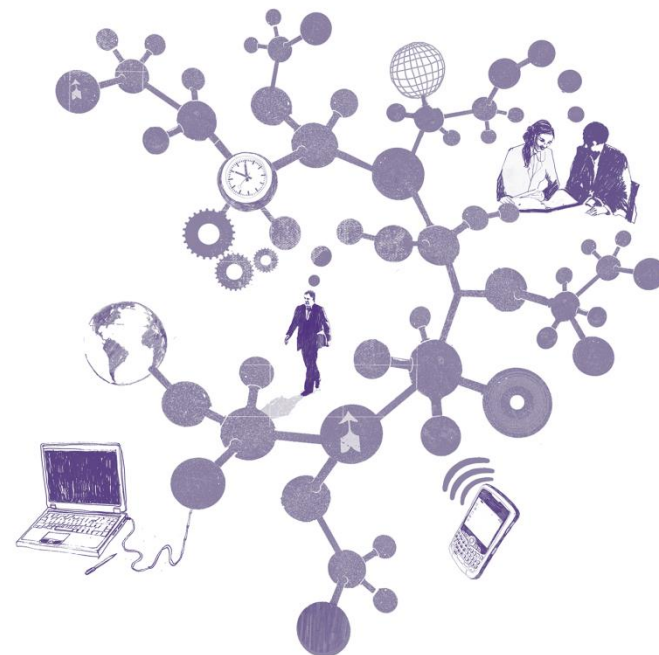
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September 2015

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### **Audit Findings for Swindon Borough Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Swindon Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Cave

Director

#### **Chartered Accountants**

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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 group and Council single entity) financial statements for the year ended 31 March 2015. 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 UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and 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

We communicated our planned audit approach to you in our Audit Plan dated 8<sup>th</sup> April 2015. Following further interim work we determined that welfare payments were not a reasonably possible risk to the audit opinion. We reported this to your June meeting in our revised plan dated 4<sup>th</sup> June 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- Review of the final version of the financial statements
- Obtaining and reviewing the final management letter of representation
- Review of final version of the Annual Governance Statement
- Testing of welfare benefits

- Whole of Government Accounts
- Updating our post balance sheet events review, to the date of signing the opinion
- Finalisation of Capital Grants testing
- Finalisation of Creditors testing

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 in respect of the financial statements.

Three adjustments have been made affecting the Group and Council's reported financial position (details are recorded in section 2 of this report).

- Management identified that the Even Swindon school property valuation was overstated by £3.1m
- A prior period adjustment of £7m which is included in relation to payments linked to pension liabilities owed by Thamesdown Transport Limited; and
- A correction of £2.7m to the balance sheet relating to the Non-Domestic Rates (NDR) debtor and creditor balances which should be shown net. This is required because the Council is acting as an agent by collecting NDR

We have also identified a number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

### **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 three 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**

### **Roles and responsibilities**

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.

### **Findings**

We draw your attention to some control issues identified in relation to:

- IT controls and journals
- contracts of employment.

Further details are provided within section two of this report. Our substantive testing approach is considered to have enabled us to obtain sufficient assurance for our audit opinion.

### **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.

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## Section 2: Audit findings

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# 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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on June 16<sup>th</sup>. 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 further changes to our Audit Plan as previously communicated to you on June 16<sup>th</sup>.

## **Audit opinion**

Our proposed 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 (UK&I) 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.	<b>Improper revenue recognition</b> Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	<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 includes:</p> <ul style="list-style-type: none"> <li>• Judgemental testing of material accounts receivable invoices</li> <li>• Review and testing of revenue recognition policies</li> <li>• Judgemental testing of material revenue streams</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<b>Management override of controls</b> Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<p>Work completed includes:</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>	<p>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 have not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	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"> <li>• Completed walkthrough of system and associated controls</li> <li>• Testing of operating expenses</li> <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>	Our audit work has not identified any significant issues in relation to the risk identified, subject to further testing as detailed on page 5.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>Work completed includes:</p> <ul style="list-style-type: none"> <li>• Walkthrough of system and associated controls</li> <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>	Our audit work has not identified any significant issues in relation to the risk identified, other than the control point relating to employee's contracts as detailed on page 17.


# Group audit scope and risk assessment

ISA (UK&I) 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
Public Power Solutions	No	Analytical	N/A	Desktop review performed by GT UK. We will review the audit findings reports from the auditors to the subsidiary.	Our audit work has not identified any significant issues.
Forward Swindon Ltd	No	Analytical	N/A	Desktop review performed by GT UK.	Our audit work has not identified any significant issues.
Thamesdown Transport Limited	No	Analytical	Yes	Desktop review performed by GT UK. We will review the audit findings reports from the auditors to the subsidiary.	We have agreed an entry to reflect a liability for pension related payments.

# 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
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"><li>• useful life of capital equipment</li><li>• pension fund valuations and settlements</li><li>• revaluations</li><li>• Impairments</li><li>• PPE valuations.</li></ul>	<p>Our findings are included in the following two pages. We have comments on the estimates and judgements in relation to:</p> <ul style="list-style-type: none"><li>• Schools accounting</li><li>• Revenue resources and</li><li>• Property plant and equipment.</li></ul> <p>The papers were received late and did not include a justification that the unvalued assets were not materially misstated.</p>	<div> amber</div>

**Assessment**

● **Red** Marginal accounting policy which could potentially attract attention from regulators   ● **Amber** Accounting policy appropriate but scope for improved disclosure  
● **Green** Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements</b>  <b>- Note 2 - Critical judgements</b>	<p>PFI schools who transfer to academy status pay their PFI contributions under the PFI contract.</p> <p>The Council excludes a number of Church schools from its balance sheet having completed an analysis of the Council's involvement in the school operations, and the ownership of the property in which the schools are based.</p>	<p>Note 2:</p> <ul style="list-style-type: none"> <li>Includes details of PFI assets transferring to Academy status. The note required some further information showing how the Council is reimbursed for payments made, and whether the Council has considered if there are indicators of the contract being onerous. This is a key critical judgement and the disclosure was expanded.</li> <li>The accounting guidance issued by CIPFA on accounting for schools changed this year. We reviewed the Council's analysis against the guidance and have no issues to report except for that below.</li> <li>Initially there was no disclosure of how many schools remain off balance sheet and the rationale. The disclosure required reference to consideration of control of the premises by the Council and the schools as entities. This is a key critical judgement and the disclosure was expanded.</li> </ul>	 <b>amber</b>
<b>Going concern</b>	<p>The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Directors' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	 <b>green</b>
<b>Other accounting policies</b>	<p>We have reviewed your other accounting policies for compliance with the local government accounts code.</p>	<p>Revenue recognition. There was no disclosed policy for:</p> <ul style="list-style-type: none"> <li>Accounting for maintained schools' income, expenditure, assets, liabilities and reserves. The disclosure has now been included.</li> <li>Revenue recognition and measurement for NNDR and Council Tax. The disclosure has now been included.</li> </ul>	 <b>amber</b>

## Assessment

● **RED** Marginal accounting policy which could potentially attract attention from regulators

● **AMBER** Accounting policy appropriate but scope for improved disclosure

● **GREEN** Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements continued

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>Last year the Council carried out a five year rolling programme of revaluations. This approach was similar to many other authorities and we were satisfied last year that the Council had satisfied itself that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>International Accounting Standard 16 requires revaluations to be made with sufficient regularity to ensure that the carrying amount (in the accounts) does not differ materially from that which would be determined using fair value at the end of the reporting period. Where the Council does not value all its assets each year we need assurance that the value of assets unvalued is materially correct in the accounts.</p>	<p>This year the Council has valued 72% of the assets (this did not include those valued on depreciated replacement cost such as infrastructure assets). This included valuing all the housing stock, all assets worth over £5m and all assets not valued in the previous 4 years, as well as any assets where known changes have taken place, for example through capital spend.</p> <p>By reviewing the valuations completed and considering the average increase in the valuations across Swindon, the Valuer estimates that the remaining assets which are unvalued are about £10m understated at the balance sheet date.</p> <p>We have reviewed the Valuer's assessment and concluded that the balance sheet is not materially misstated.</p> <p>Recommendation</p> <p>The working papers provided for audit should demonstrate by year that the carrying value of assets in the balance sheet is not materially misstated.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of the an outstanding VAT reclaim for £10.7m. We understand this has been outstanding for some 5 months and was a delayed claim arising from items being missed from the original claim when Swindon Commercial Services was restructured.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>We have requested an analysis of the movement in the HRA balance to be disclosed next to the HRA in the statement of accounts. This is required by the local government accounts code. Other disclosure matters are noted on a later slide.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations for loans and requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent which were returned with positive confirmation.</li> </ul>

# 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. Specifically we considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above and considered controls over journals.

The matters that we identified during the course of our audit are set out in the table below. They were previously reported at the interim stage. These recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● red	<ul style="list-style-type: none"> <li>We identified three senior managers who have access to post journal entries. We did not identify any evidence that senior management had posted journal entries.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that senior management do not have access to post journal entries, in order to maintain segregation between posting duties and review duties.</li> </ul>
2.	● amber	<ul style="list-style-type: none"> <li>We 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.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that a control is put in place to identify unauthorised journals above £1.6m.</li> </ul>
3.	● amber	<ul style="list-style-type: none"> <li>We identified during our testing that five contracts of employment were unsigned. 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.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that all employees are required to sign a contract upon joining, which is retained securely by Swindon Borough Council and that those contracts which cannot be traced are re-signed.</li> </ul>
4.	● amber	<ul style="list-style-type: none"> <li>We identified that within Oracle some users may be able to change their own access rights without authorisation. We also noted that some users are able to self-assign privileges (such as additional functionality).</li> </ul>	<ul style="list-style-type: none"> <li>Management should consider how to enforce proper segregation of duties and role based access controls at all levels of the organisation including those staff managing the IT environment and applications.</li> </ul>
5.	● amber	<ul style="list-style-type: none"> <li>We identified within Oracle there are generic accounts with excessive privileges. Also there are users with access to a function referred to as the 'process tab' which allows override of functions. Currently there is only limited audit logging of activity. There is a risk that users could carry out activities and changes without detection.</li> </ul>	<ul style="list-style-type: none"> <li>Management should consider reviewing 'SYSADMIN' account privileges and process tab functionality.</li> <li>Management should implement the audit logging of key areas of the system on a risk-based approach.</li> </ul>

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.

## Assessment

● **Red** Significant deficiency – risk of significant misstatement

● **Amber** Deficiency – risk of inconsequential misstatement



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<p>Review of user access rights</p> <ul style="list-style-type: none"> <li>User access accounts and associated permissions within the network were not being routinely reviewed by IT management for appropriateness</li> </ul> <p>Recommendation</p> <p>Formal reviews be undertaken by management to ensure that access is granted on the basis of a user's level of responsibility.</p>	<ul style="list-style-type: none"> <li>Security administrators of financially critical applications should be provided with timely notifications from HR of leaver activity, to end-date user accounts associated with anticipated leavers, or immediately disable user accounts associated with un-anticipated leavers.</li> </ul> <p>Management Response:</p> <ul style="list-style-type: none"> <li>The above recommendations will be implemented for Active Directory and for Oracle EBS where possible.</li> </ul>
2.	X	<p>Segregation of duties in relation to Oracle</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>Recommendation</p> <p>The Council restricts system developer access to the IT development and test environment.</p>	<ul style="list-style-type: none"> <li>Management should consider how to enforce proper segregation of duties and role based access controls at all levels of the organisation including those staff managing the IT environment and applications</li> </ul> <p>Management Response:</p> <ul style="list-style-type: none"> <li>Management are planning a cost benefit exercise for audit logging, considering the capacity available. The changes will be implemented where possible. Changes will be raised with the Capita Oracle team and progress reported to the Head of IT at weekly update meetings until completion</li> </ul>
3.	✓	<p>Change management procedures</p> <ul style="list-style-type: none"> <li>There are no formal local change management procedures for payroll. This could result in changes not being effectively administered.</li> </ul> <p>Recommendation</p> <p>Change management policies and procedures should be developed and approved.</p>	<ul style="list-style-type: none"> <li>We have reviewed the design effectiveness and have not identified significant deficiencies for 2014/15.</li> </ul>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial 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	<b>Valuation</b> The valuation of a school reduced by £3.1m as a late adjustment to the Valuer's report. The adjustment reduced the property plant and equipment balance by £3.1m and reduced the gain on revaluation for the asset in the CIES.	(3,100)	(3,100)	(3,100)
2	<b>Thamesdown Transport Limited (TTL)</b> A prior period adjustment is included in relation to pension liabilities owed by TTL, resulting in a financial asset in the balance sheet of Swindon BC. The change in TTL accounts required a change in accounting policy on Swindon BC's accounts. There is no overall impact on the Group position.	0	6,981	0
3	<b>Non-domestic rates (NDR) Debtor and Creditor</b> The NDR debtor and creditor should be shown net in the balance sheet due to the nature of the transaction – reduction of both debtor and creditor	0	(2,700) 2,700	0
<b>Overall impact</b>		<b>£(3,100)</b>	<b>£3,881</b>	<b>£(3,100)</b>

# 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
We did not identify significant unadjusted misstatements.			

# Impact of uncorrected misstatements in the prior year

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	<b>Schools Cash</b> 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.	902	902	Management Response 14/15  The balance was investigated and cleared by officers, as it did not represent schools cash.
<b>Overall impact</b>		<b>£902</b>	<b>£902</b>	

# 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/note to the accounts	Impact on the financial statements
1 Disclosure	n/a	Note 12 property plant and equipment	Note 12 has not disclosed, as required by paragraph 4.1.4.3(4) of the Code, the date of valuation for the classes of assets within the council's five year programme. Nor is there any consideration of the carrying value to fair value of assets within the accounts.
2 Disclosure	£9,900	Cash Flow Statement, Note 28 and Note 29	Cash Flows from Investing Activities calculation previously included cash equivalent investments. This resulted in a prior period adjustment of £9.9m reclassifying cash flows between Operating and Investing activities.
3 Disclosure	1,500	Long and short term borrowing and Note 17	The split of long term and short PWLB debt is recorded as 100% long term in the accounts, although a proportion (£1.5m) is actually short term debt.
4 Disclosure	n/a	Explanatory Foreword	Leisure service transfer. The note stating that the leases arising from the leisure service transfer are being treated as operating leases should be further explained.
5 Disclosure	n/a	various	We made a number of other changes to ensure the accounts used the headings and definitions required by the accounts Code. For example relating to headings in the CI&E and the pension scheme notes.
6 Disclosure	2,800	Note 12 property plant and equipment	Haydon Wick school £2.8m should be treated as a disposal not impairment. This is a balance sheet reclassification only.
7 Disclosure	4,700	Note 12 property plant and equipment	Depreciation for HRA assets written back on revaluation had been included within depreciation de-recognised on disposal, it should have been included in depreciation written back on revaluation.

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## 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 undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted the Council continues to face significant financial pressures in the medium term. with a funding gap of £20m in 2016/17 and similar gaps in the following three years. The Council has a strong record of controlling its spending within budget however.

### 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 has a lot of initiatives in place to develop its services and identify efficiencies.

## 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 2015.

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:

<b>Green</b>	<b>Adequate arrangements</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	This covers consideration of reserves levels, budgetary performance, and treasury management. We have not identified any material risks.	<b>Green</b>
<b>Strategic financial planning</b>	The Council's medium term financial strategy projects ahead to 2020 in terms of possible funding levels, taking account of cost pressures including generic inflation, demographic pressures and specific changes in service requirements. The MTFS then identifies the funding gap for each year. It then risk assesses the level of reserves. The MTFS currently projects a funding gap of £20m for 2016/17.	<b>Amber</b>
<b>Financial governance</b>	Based on our review of arrangements, the audit committee and Members are kept informed of relevant issues. the statutory responsible financial officer and deputy are involved in the decision making process.	<b>Green</b>
<b>Financial control</b>	Based on our walk through of specific key controls linked to our work on the accounts, review of risk registers and review of the annual governance statement we have identified no material issues to report. Internal Audit issue an annual opinion on the Council's controls. For 2014/15 Internal Audit's annual opinion is that the Council's overall internal control arrangements are considered to be satisfactory, resulting in a 'moderate' level of risk.	<b>Green</b>
<b>Prioritising resources</b>	We have reviewed progress with key decisions around the provision of leisure centres and the property development at Wichelstowe, outlined later in the VFM section of this report.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	We have reviewed progress with your transformational projects which is outlined later in the VFM section. Overall the Council is making good progress with these projects and is achieving significant transformation. However there are risks relating to children's services.	<b>Green</b>



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. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Focus of the Medium Term Financial Planning</b> <b>Process for reviewing the Medium Term Financial Plan</b>	<p>In common with the rest of the public sector, the Council faces significant financial challenges in the medium term. The squeeze on resources continues and demographic pressures drive service demand. The MTFS is currently projecting a funding gap of £20m in 2016/17 with similar gaps in the following three years. The Council has significant actions in hand, for example through the transformational programme to deliver effective and efficient services. Also the Council has a strong track record in delivering its budget, however the on-going funding gap means its medium term financial position remains an amber risk.</p>	<b>Amber</b>
<b>Improving efficiency and productivity</b> <ul style="list-style-type: none"> <li>Effectiveness of key services</li> </ul>	<p>There is a risk in relation to children's services. Following the Ofsted judgement which required improvement, considerable work is being done to strengthen the service. There has been a significant problem around recruiting social workers particularly affecting Children's services. The Council has made changes to the leadership of the service and has worked hard to improve its permanent recruitment and retention. This has started to see good results and a decrease in the need for expensive agency costs. Keeping staffing ratios up in the face of retirements of long serving staff has been a key part of the issues raised by Ofsted that needed to be addressed. There are also on-going budgetary pressures and projected overspends which are impacting the Council's overall drive for efficiency savings.</p>	<b>Amber</b>

We identified a number of areas for specific review in 2014/15 and summarise our findings below:

Residual risk identified	Summary findings
<p><b>Alternative service delivery models</b></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. We considered this a specific risk and reviewed arrangements in relation to the key development at Wichelstowe.</p>	<p>Last year we reported that the Council was going through a complex tendering process to appoint a private sector partner to develop the site at Wichelstowe. The Council has obtained support from professional advisors and established governance arrangements to manage the process.</p> <p>The Council has now appointed a private sector partner, although contracts have yet to be signed off. Officers have continued to discuss risks and arrangements with the partner. Work is on-going to finalise the Section 106 agreement. The scheme cash flows are projected to recover the Council's set up costs of £43m in eleven years with total cash flows currently projected to be £147m.</p> <p>Considerable monitoring and decision making will be required as the development proceeds. For example there will be a separate business case prior to the development of each parcel of land. The business case will be signed off by the joint venture board. There remain risks that economic conditions will affect build rates which will impact cash flows.</p> <p>Recommendation:</p> <p>The Council needs to continue to ensure there is sufficient capacity on the Wichelstowe Board to protect the Council's interest.</p>
<p><b>Service transformation – transfer of the leisure centres</b></p> <p>The Council decided to transfer its leisure facilities to a private sector provider. We considered this to be a specific risk and reviewed arrangements.</p>	<p>The Council transferred its leisure centres agreeing a separate lease for each site. This enabled the Council to end its annual subsidy to leisure centres of circa £1.4m pa. Also it transferred its backlog maintenance liability of £4m to the Companies taking on the leases. In return the Council paid an 'inverse premium' of £3m, including £1m to cover pension costs of TUPE and £2m to invest in the sites.</p> <p>The main new provider, Greenwich Leisure Limited took on the leisure centres and committed to investing £5m locally in leisure and committed to an on-going leisure service in the Borough. The leases included 'keep open clauses' requiring the operator to keep open substantially all of each site.</p> <p>Governance of the transfer was provided through:</p> <ul style="list-style-type: none"> <li>- risk management procedures</li> <li>- professional advisors, and</li> <li>- reports to Cabinet</li> </ul> <p>A methodology was established for packaging the centres and assessing the bids. The assessment criteria took account of financial and socio economic factors. Also there was widespread consultation during the process. This was a novel transaction but was carefully planned and arrangements were in place to manage the process.</p>

Residual risk identified	Summary findings
<p><b>Service transformation – review of transformational projects</b></p> <p>Linked to the 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 have conducted a high level review of the transformation programme, following up on work we did last year. The aim was to assess the extent to which the transformation programmes are on course to deliver the required savings.</p> <p>In 2014/15 work undertaken through the transformation programme identified savings of £8.3m for 2015/16 against a target of £9m. Within this the adult social care programme achieved more savings than expected but other programmes covering street smart and strengthening families achieved lower than anticipated savings.</p> <p>In order to assure future savings the Council has strengthened the governance of the transformation programmes. A new 'Stronger Together' executive has been formed and overall management has been put under the Finance Team. A redesigned set of 9 strategic transformation sub-programmes has been developed each supported by its own programme board. This included additional investment in project management resource to ensure each project was adequately supported. We found the Corporate directors appeared well briefed on the detail of the programmes allocated to them. Overall progress and key decision points are periodically reported to Members through cabinet, overview &amp; scrutiny committee and the Leaders Advisory Group.</p> <p>The revamped 'stronger together programme' aims to deliver savings for 2016/17 but also to bed in arrangements to provide a platform for future years. The transformational projects are tasked with finding savings of £9m toward the funding gap of £20m in 2016/17. (The balance to be found from tactical savings, other income and actions yet to be confirmed). The £9m is supported by defined and deliverable schemes under the 9 featured sub-programmes. The majority of these schemes will require significant development before they can be translated into approved budget reductions. From an audit perspective overall risk is low, but there is some residual risk to delivery of the required financial benefits in some areas, particularly in regard to:</p> <ul style="list-style-type: none"> <li>•Support to 0-25 year olds with social care needs - due to the scale of savings (£4m) and the complexity of reducing the cost of care.</li> <li>•ICT Infrastructure – due to the inherent risks of timing and unforeseen costs associated with savings from IT infrastructure projects.</li> <li>•Community Assets – due to the challenge of boosting revenues from existing assets and gaining support for reform (e.g. libraries).</li> <li>•Waterside redevelopment – due to significant challenges around changing management practices and staff culture</li> <li>•Supporting Children – due to the risk that the budget overspends currently projected cannot be mitigated, for example linked to the challenges such as agency staff costs and recruitment.</li> </ul> <p>The contribution of the new Stronger Together transformation programme to 2017/18 has yet to be calculated, in keeping with the focus on practical delivery that characterises the new programme.</p> <p>Overall we found the Change programme has been significantly strengthened in year and is progressing well in most areas, it has delivered significant savings to date and will continue to be a significant contributor to closing the funding gap over the next two years. However, there are some significant challenges to the delivery of planned financial benefits for 2016/17 that will need to be overcome.</p>

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## 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 for the provision of non-audit services.

**Fees**

	Per Audit plan £	Actual fees £
Council audit	171,170	171,170
Grant certification on behalf of Audit Commission	18,000	18,000
<b>Total audit fees</b>	<b>189,170</b>	<b>189,170</b>

**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 Financial Reporting Council'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.

**Fees for other services**

Service	Fees £
<b>Audit related services</b>	
Teachers pension return	3,000
<b>Non audit related services</b>	
Place analytics data service	7,800

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## 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 (UK&) 260, as well as other (UK&I) 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](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 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		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

# Appendices



# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The working papers provided for audit should demonstrate by year that the carrying value of assets in the balance sheet is not materially misstated.	High		
2	We recommend that senior management do not have access to post journal entries, in order to maintain segregation between posting duties and review duties.	Medium	Intend to remove access in 2015	IT Enterprise Services Planned implementation during 2015
3	We recommend that a control is put in place to identify unauthorised journals above £1.6m.	High	A report is currently in development within the IT department.	IT Enterprise Services Planned implementation during 2015
4	We recommend that all employees are required to sign a contract upon joining, which is retained securely by Swindon Borough Council and that those contracts that cannot be traced are re-signed.	Medium	This is a historical issue due to the process of moving PPS Ltd (formerly SCS Ltd) to Swindon Borough Council. Management will discuss with Human Resources and review the process.	Management & Human Resources Planned discussion during 2015
5	Management should consider how to enforce proper segregation of duties and role based access controls at all levels of the organisation including those staff managing the IT environment and applications.	Medium	The recommendations will be implemented for Active Directory and for Oracle EBS where possible	IT Enterprise Services Ongoing discussion

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Management should: <ul style="list-style-type: none"> <li>consider reviewing 'SYSADMIN' account privileges and process tab functionality</li> <li>implement the audit logging of key areas of the system on a risk-based approach.</li> </ul>	Low	Management are planning a cost benefit exercise for audit logging, considering the capacity available. The changes will be implemented where possible. Changes will be raised with the Capita Oracle team and progress reported to the Head of IT at weekly update meetings until completion.	IT Enterprise Services Ongoing discussion
7	The Council should seek to deliver a balanced financial plan for at least two years ahead to enable sufficient time for planned transformation schemes to deliver necessary savings.	High		
8	The Council needs to continue to ensure there is sufficient capacity on the Wichelstowe Board to protect the Council's interest.	High		

## Priority

*High, Medium or Low*

# Appendix B: Audit opinion

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWINDON BOROUGH COUNCIL

We have audited the financial statements of Swindon Borough Council for the year ended 31 March 2015 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 Statement of Financial Position, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2014/15.

This report is made solely to the members of Swindon Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Board Director Resources Responsibilities, the Board Director 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 2014/15, 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 also 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's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 2015 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 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

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.

Elizabeth Cave

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

Hartwell House  
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Bristol BS1 6FT

29th September 2015



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