

Annual Audit Letter

Swindon Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 7).**

I have reported only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on your financial statements for 2009/10, on 30 September 2010. My audit did not highlight any material errors in the financial statements.

Value for money

2 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (the value for money conclusion) on 30 September 2010.

Current and future challenges

Impact of the economic downturn

3 The downturn in the economy continues to impact adversely on Council budgets. Reduced income from both revenue and capital sources have left the Council with a budget gap of over £5 million in the current financial year (2010/11) and potentially greater challenges beyond that.

4 In response to the current situation the Council has started to reduce its workforce and continues to look for innovative ways of delivering services and reduce costs.

Supporting Vulnerable people

5 The Council has decided that the provision of support to vulnerable people is an area of significant risk. In a time of budget pressures, the demand for these services continues to increase and this trend is expected to continue in the future as people live longer and the population continues to grow. The Council's responsibilities in relation to the health of its population will increase as a result of the recently announced changes in the local and national structural of the National Health Service.

The Spending Review

6 The Treasury announced the results of its Spending Review in October 2010. This sets out the expected cuts to be delivered across the public sector to help tackle the government budget deficit. The overall decrease in local government budgets has been set at 28.4 per cent over the next four years; the Council's initial projection for Swindon is that this equates to a further £45 million of revenue savings each year, or about a third of the current net budget.

7 Swindon Borough Council, like most other councils, needs to identify how it can make the required savings while maintaining value for money in the services it provides. In order to help achieve an appropriate balance between these at times competing priorities, the Council's Medium Term Financial strategy is fundamentally important.

Recommendation

R1 Members should continue to ensure that the Council's Medium Term Financial Strategy and risk management processes are resilient in the short and medium term to help the Council respond to the significant challenges it faces.

Implementation of International Financial Reporting Standards (IFRS)

8 2010/11 is the first full year of accounting using the International Financial Reporting Standards (IFRS). I am satisfied from my discussions to date with officers that the Council is well prepared for this significant change. Nevertheless it will be a significant challenge to produce fully compliant Financial Statements for 2010/11.

Independence

9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, before the statutory deadline.

Overall conclusion from the audit

Significant Issues arising from the audit.

10 Before giving my opinion I discussed a report (the Annual Governance Report) with the audit committee, setting out the main issues arising from my audit. These are summarised below.

11 The draft financial statements contained no material errors.

12 Six non-trivial errors were identified. Management decided not to amend three of these errors as they were not material; these related to:

- non-accrued pension liabilities (£1.89 million);
- Private Finance Initiative life cycle costs (£353,000), and
- incorrect capitalisation of revenue spending (£100,000).

13 I issued an unqualified audit opinion on 30 September 2010 stating that the 2009/10 financial statements give a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

Accounting practice and financial reporting

14 I considered the qualitative aspects of your financial reporting.

15 The most significant issue identified this year was that the cash flow statement had not been prepared on a cash basis. This meant that information in the cash flow statement did not provide a clear picture of the cash movements in the financial statements. I concluded that this problem did not fundamentally change the readers understanding of the Council's financial position as a whole. I recommended that this issue should be addressed during the preparation of next year's financial statements.

16 In my Annual Governance Report dated September 2010 I made several other recommendations to improve accounting practice or financial reporting in future. Including the need to:

- provide evidence at the start of the 2010/11 audit to show all potential service arrangements have been individually considered as part of the requirements of implementing IFRS
- obtain Audit Committee approval of accounting policies each year before adoption of the draft accounts.
- obtain related party transaction returns from all councillors in future to ensure all such transactions are identified.

Significant weaknesses in internal control

17 The Council's financial systems are generally working well.

18 One weakness highlighted by my audit is that the Council does not carry out any specific procedures to confirm the existence of assets once these have been included in the fixed asset register. I was satisfied from the testing carried out during the audit and the assurances brought forward from previous audits that that this weakness did not lead to material loss or mis-statement in 2009/10. Management have already accepted a recommendation to introduce procedures to eliminate this weakness.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

19 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on the Comprehensive Area Assessment (CAA) would cease with immediate effect. Because of this, the Commission would no longer issue scores for its use of resources assessments.

20 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

21 I report below the significant findings from this work.

VFM conclusion

22 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My findings are summarised in the table below.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

23 I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Risk-based performance reviews

24 My fee plan for 2009/10 included proposed work in response to two risks identified during my initial planning for the VFM conclusion. The risks were related to the medium-term funding gap and the connecting people-connecting places agenda. My work in response to these risks was carried out as part of my overall use of resources review and I have not issued separate reports for them.

Approach to local value for money work from 2010/11

25 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

26 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

27 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Challenges

28 The Council has so far responded positively to the financial challenges it faces. The 2010/11 budget has been revised and reapproved at Cabinet meetings in July and September 2010, and a programme of savings has been agreed..

29 Swindon, like many councils, is trying to respond to the difficult situation of funding the increasing cost of supporting vulnerable people. Longer-term, the Council is dependent on national decisions yet to be made on how these services will be funded in the future. In the short and medium term, it is as far as is possible addressing the issue by emphasising working with its partners, particularly the Primary Care Trust, to identify ways of reducing costs.

Future developments

30 The continued tightening of the financial environment will clearly put more pressure on the Council's limited resources. The Council has already pre-empted these reductions by reviewing its budget setting strategy and starting consultation on identifying what the core services the public wants to be provided. Our work in 2010/11 to review arrangements for achieving value for money will focus on considering the ways in which the Council is proposing to deliver the required savings, while as far as possible maintaining value for money in the services it provides.

31 2010/11 financial year is the first full year of accounting using the International Financial Reporting Standards. Good progress has been made to date and I will continue to discuss with the Council emerging issues and preparatory work for the transition.

Closing remarks

32 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 23 November 2010 and will arrange for copies to be provided for all council members.

33 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the following reports I issued to the Council during the year:

Report	Date issued
Fee letter	April 2009
External Opinion Plan	September 2010
Annual Governance Report	September 2010

34 The Council has taken a positive and helpful approach to our audit. I wish to thank the Councils staff for their support and cooperation during the audit.

Martin Robinson
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£152,050	£152,050	0
Value for money	£162,950	£162,950	0
Total audit fees	£315,000	£315,000	0
Non-audit work	£40,000	£58,600	-£18,600
Total	£355,600	£373,600	-£18,600

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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