

The Annual Audit Letter for Swindon Borough Council

Year ended 31 March 2017

18 October 2017

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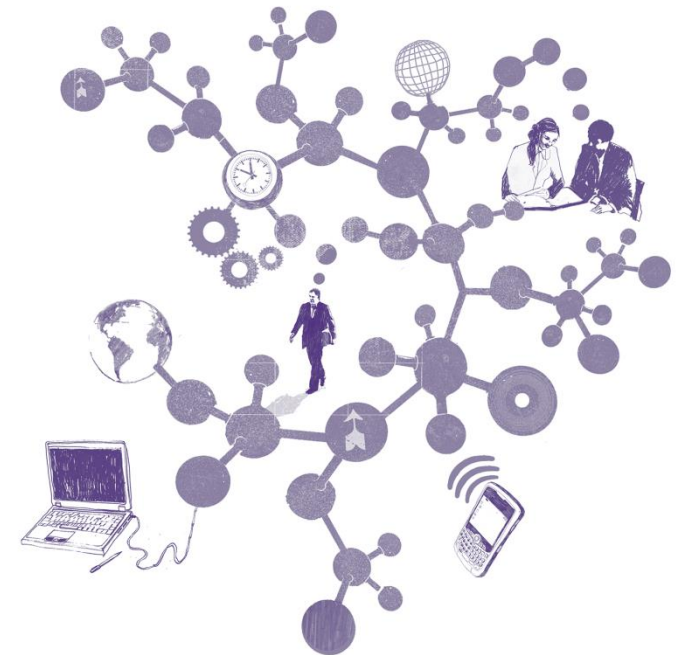
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Swindon Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 13 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 20 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 20 September 2017.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 20 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Swindon Borough Council in accordance with the requirements of the Code on 20 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £9.5 million, which is 1.9% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and auditor remuneration of £20,000.

We set a lower threshold of £480,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Table 1: Accounting risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment (PPE) The Council re-values its assets on a rolling basis over a five year period. (Although larger assets are valued more regularly). The Accounts Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have</p> <ul style="list-style-type: none"> • walked through the PPE valuation process • reviewed the competence, expertise and objectivity of management experts used • discussed with the Valuer the basis on which the valuation is carried out and considered and where necessary challenged the key assumptions • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • reviewed and challenged the information used by the Valuer to ensure it is robust and consistent with our understanding • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • review of accounting estimates, judgements and decisions made by the Valuer • considered unusual significant transactions. 	<p>The Valuer has valued £719m of assets which is approximately 62% of the total. The valuations were done as at 1 April and the Valuer provided a further estimate (£22.6 m) of the overall increase in value to the balance sheet date of 31 March 2017.</p> <p>The Valuer considered also the assets not valued during the year and provided an estimate of the increase needed to uplift these values to the 31 March 2016 (£10.3m).</p> <p>Overall, from our testing of the valuations to 31 March 2017, which we did by comparing to national indices and referring to independent reports prepared on movements nationally in property values, we found the estimated values were materially correct.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements and was assessed as a risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation to gain an understanding of the basis on which the valuation is carried out undertaken procedures to confirm the reasonableness of the actuarial assumptions made reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We obtained further direct assurances from the Actuary in respect of the present value of funded liabilities.</p>	<p>We had no matters to report.</p>
<p>Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> <p>Compliance with the new requirements was assessed as a risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) prior year comparatives to ensure that they are in line with the Authority's internal reporting structure. reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>The notes to the draft 2016/17 accounts did not originally provide sufficient detail to trace amounts disclosed in last year's accounts to the 2015/16 prior period comparatives in the 2016/17 accounts.</p> <p>Additional information was added the accounts before finalising them.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Employee remuneration</p> <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> completed a walkthrough of system and associated controls tested employee remuneration expenses Undertaken a trend analysis of payroll expenditure by month to identify any significant variances reviewed post year end payments to ensure all expenditure is included reviewed the reconciliation of gross payroll to the ledger to ensure completeness. 	<p>We completed our testing and identified no significant matters to report.</p>
<p>Operating expenses</p> <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> completed walkthrough of system and associated controls tested operating expenses reviewed unrecorded liabilities and post year end payments to ensure all liabilities were identified reviewed accruals determined whether liabilities have been recorded in the correct period. 	<p>We completed our work and identified no significant matters to report in relation to the risk of creditors being understated or not recorded in the correct period.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 20 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable. The finance team responded promptly to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 13 September 2017. We have identified no adjustments affecting the Group and Council's overall reported financial position. Recorded net expenditure of £494.494m remained unchanged following our audit.

In addition to the key audit risks reported above, we reported two other issues noted below:

- The creditors balance was amended by £7.2m to exclude amounts that were timing differences rather than actual creditors, with a corresponding adjustment to cash, this was a presentational change to the accounts.
- The Council needs to continue to review its accounts processes and supporting documentation to enable it to meet the requirement to have its accounts audited and opinion issued by the earlier deadline next year of July 31st, as set out by the Government.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 20 September 2017.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. These comprised:

- The Council is under pressure to develop savings plans. There was a risk that arrangements in 2016/17 for developing savings plans would not be sufficient resulting in savings plans not being deliverable in 2017/18.
- There is a risk that demand cannot be managed in Adult Care and the Service cannot be funded in the medium term.

The work we performed and our conclusions are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Planning For 2017/18 the Council had identified planned budgeted savings of £7.5m as being at risk of not being delivered. The Council established a contingency fund of £4.1m to cover non-delivery of these savings.</p> <p>The development and delivery of savings plans was therefore identified as a risk.</p>	<p>To support our work to give our conclusion on the Council's arrangements for planning finances we reviewed how the Council built up its savings plans and risk assessed the prospects for delivering them.</p>	<p>Risk assessment and monitoring have improved, non delivery of these savings to date is 4.1m and will be covered by the contingency. Identification of sufficient ongoing savings remains high risk.</p> <p>Savings are developed and monitored for each area through the Transformation Programme which in turn is linked to the Council's key themes of growing the economy, going local and building resilience. The Council has recently appointed a new Transformation Programme Management Officer to coordinate arrangements. There is also a Transformation Board for each key area of the Programme supported by a nominated Finance officer.</p> <p>When setting the 2017/18 Budget in February 2017 savings plans were risk assessed. Finance officers had detailed discussions with service managers and project leads, reviewed implementation plans and took a view at a point in time about the level of risk. This was based on relevant factors such as the likely timing of implementing IT infrastructure, when new contracts could be in place, and the take up schemes. Those savings plans where officers felt there was a higher degree of risk were highlighted in the Budget report to Members. High risk savings plans included those to make savings from; digitisation, procurement, headcount reduction and small scale housing development. A provision of £4.1m was included in the 2017/18 budget to cover these risks.</p> <p>Overall the Council has standardised the way savings are monitored across the Council. Savings are incorporated into the budget and monitored through budget reporting, but also there is now a standard spreadsheet showing specifically progress against savings which is monitored monthly by officers for all areas, with reporting by exception to Members.</p> <p>Officers have continued to monitor risks. The provision of £4.1m has been released to cover non delivery of the high risk savings. Current projections for 2017/18 show a potential overall year end overspend of £1.5m against the budget of £136.5m. However, the projected overspend reflects new pressures in the area of Children's services.</p> <p>Overall processes support the Medium Term Financial Strategy covering the period to 2019/20 which is underpinned by an analysis of risks eg to funding and spending pressures.</p> <p>Based on our work we concluded that the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions were satisfactory.</p>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Adult Social Care In common with many other councils nationally Swindon's Adult Social Care Services are under considerable pressure. There is a risk demand cannot be managed and the service cannot be funded in the medium term.</p>	<p>We reviewed actions to manage the budget and longer term actions to manage demand and to transform services.</p>	<p>The Council's transformation programme is well advanced and the planned savings of 2m in 2017-18 have been delivered. The budget was rebased to reflect the pressures on Adult Social Care and so far looks to be realistic. Good progress has been made in this challenging area.</p> <p>The 2016/17 Adult Social Care budget of £60.4m was overspent by £5m. Demand pressures around Older People and Learning Disability transition cases were the main reason for the overspend. In addition the Council only delivered savings of £3.9m against a target of £6.1m.</p> <p>The Council has a number of projects aimed at helping social care clients to increase their independence and move to lower levels of care. These are managed through the Council's Transformation Programme with Adult Social Care being one of six key areas of focus. The 2017/18 budget includes savings plans of £2.6m. All the actions to achieve these have been identified. At July 2017 £2m of the total savings had been achieved and officers project all £2.6m will be realised.</p> <p>As part of the 2017/18 budget setting process, officers did a detailed exercise to rebase the Adult Social Care budget. This involved looking at the costs of residential care providers. The outcome of this was to increase the Adult Social Care Budget to £70m and build this in to the medium term financial strategy. Against this it is currently projecting a small overspend of £10,000.</p> <p>The Council continues to face budget pressures. Looking ahead to 2018/19 a further £2.7m of savings need to be identified however, based on our work we concluded that the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions were satisfactory.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of other services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	128,378	133,378	128,378
Housing Benefit Grant Certification	13,500	13,500	10,476
Total fees (excluding VAT)	141,878	146,878	138,854

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

We agreed an additional fee of £5,000 to audit the transactions in the Group accounts relating to the bus company which was disposed of part way through the financial year. Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Teachers pensions return	4,200
• Pooled capital receipts return	2,200
• Home and Communities Agency return	2,500
Non-audit services	0

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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