

Annual Audit Letter

Swindon Borough Council

Audit 2008-2009

November 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified audit opinion on 28 September 2009. The 2008/09 financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
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Financial Statements

- 2 The draft financial statements submitted for audit were complete and contained no material errors. Nine non-trivial errors were adjusted by management before the final financial statements were approved by members and the audit opinion signed. In addition we identified a number of opportunities to improve disclosure in the statements.
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Value for money

- 3 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 28 September 2009.
 - 4 This assessment was based in large part on the use of resources assessment reported in paragraphs 19-22 of this letter.
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Economic downturn

- 5 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
 - 6 This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.
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- 7 The Council is managing the risks associated with the economic downturn well. For example:
- the Council continues to have no investments in Icelandic Banks;
 - the Council has sound arrangements for treasury management and complies with the requirement to publish members expenses; and
 - governance arrangements are sound with examples of notable practice identified.
- 8 If prolonged, the economic downturn could continue to have a significant impact on the income available to the Council (aside from any reduction in external funding) and a significant potential shortfall of resources of over £9m has already been identified for 2009/10. Although asset values as at 31 March 2009 did take account of the economic downturn, further downward adjustment to valuations may be found to be necessary in future to ensure assets are recorded in the balance sheet at appropriate values.

Audit Fees

- 9 Audit fees for 2008/09 are in line with those initially proposed, except in relation to value for money where it was agreed we would cancel or postpone our proposed work on Swindon Commercial Services. This is because the status of this organisation is not due to change until 1 April 2009, so any associated risks with the change in status did not impact on our 2008/09 audit.

Table 1 **Audit fees**

	Actual	Planned	Variance
Financial statements and annual governance statement	£203,063	£203,063	
Value for money	£93,881	£101,421	–£7,540
Total audit fees	£296,944	£304,484	
Inspection fees	£22,615	£22,615	
Grant claim fees	£66,350 (Est)	£66,350 (Est)	
Total	£385,909	£393,449	

Actions

- 10 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

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

Key messages

Recommendation

- R1** Members should continue to monitor the impact of the economic downturn and ensure appropriate action is taken to respond to the impact on asset values and reduced revenue.

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.

Significant issues arising from the audit

12 There were no significant issues arising from our audit of the financial statements.

Material weaknesses in internal control

13 We identified no material weakness in internal control although we made a number of recommendations in our Annual Governance Report to improve internal control in a number of areas, including:

- strengthening the role of finance in relation to the work of the in house valuation team; and
 - improving authorisation procedures for material journals.
-

Accounting Practice and financial reporting

14 I considered the qualitative aspects of your financial reporting.

15 The quality of the accounts provided for audit improved again this year. A number of relatively minor changes were made to the draft accounts to improve disclosure.

International Financial Reporting Standards

16 The Council is required to prepare its 2010/11 accounts in accordance with International Financial Reporting Standards (IFRS). The Council's finance team is currently carrying out preparatory work in a number of areas, to enable it to meet the new requirements by reviewing:

- the information it holds on assets (eg to allow for component accounting);
- the accounting treatment for the Council's Private Finance Initiative (PFI) schemes (ie to determine if the accounting entries should be 'on balance sheet');
- all leases (ie to assess whether they are finance leases and hence should be 'on balance sheet')

17 A significant amount of work will be required to enable the Council to re-state its opening balance sheet on 1 April 2010 in IFRS format, particularly in ensuring asset registers hold the necessary information to properly account for assets.

Financial statements and annual governance statement

- 18** The Audit Commission is currently in the process of undertaking a survey of progress in relation to IFRS and we will feedback to the Council's Director of Finance any general messages which come out of this work once the results of the survey have been analysed.

Recommendation

- R2** Members should ensure adequate resources are made available to fully prepare for the implementation of International Financial Reporting Standards.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 19** In forming my scored use of resources judgements, I have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements of level 2.
- 20** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit and related work.
- 21** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5. These scores were confirmed by the Audit Commission's national quality assurance review in September 2009.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

- 22** The Council scored 3 out of 4 for five of the nine KLOE areas, including one area (commissioning) which was assessed for the first time. The four KLOE which scored 2 out of 4 were financial reporting, data quality, natural resources and asset management. Detailed findings are included in Appendix 1.

VFM Conclusion

- 23** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the KLOEs are set out in Appendix 1.
- 24** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 25** 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 15 January 2009 and will arrange for copies to be provided for all Council members.
- 26** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit plan	March 2008
Use of Resources Summary	September 2009
Annual Governance Report	September 2009
Good Governance survey results	October 2009
Grant claims report	In preparation

- 27** I would also like to emphasise the close linkage between the audit matters discussed in this letter and other aspects of the Audit Commission's work, particularly the Council's Organisational Assessment and the Area Assessment for Swindon.
- 28** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Martin Robinson
 District Auditor
 December 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Table 4 Theme 1: Managing finances

Theme score	3
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has good arrangements for financial planning including:</p> <ul style="list-style-type: none"> • Integrated financial and performance arrangements inclusive of key partners • Sound arrangements for treasury management • A good understanding of local communities and effective engagement • Identification and management of cost pressures 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council had a good understanding of its costs and has a history of making efficiencies, evidenced by:</p> <ul style="list-style-type: none"> • The Council's 2008 value for money baseline and use of benchmarking • Recent direction of travel assessments • Joint working and understanding with the PCT • Notable practice in relation to the use of the Gateway procurement system • £6.9m efficiencies achieved in 2008/09 	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<ul style="list-style-type: none"> • Budget monitoring and financial reporting is fit for purpose and supports the achievement of priorities • Budget holders understand their responsibilities and are happy with the currency of data provided • The Council manages its finances well within a fragile financial environment • The latest financial reports are readily accessible to the public • Accounts meet statutory requirements but contain a number of non trivial errors • There were a number of opportunities to improve disclosure in the financial statements 	

Appendix 1 – Use of resources key findings and conclusions

Table 5 Theme 2: Governing the business

Theme score	3
KLOE 2.1 (commissioning and procurement)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • Notable practice submitted in relation to the use of the Gateway procurement system • Well-developed joint commissioning arrangements with the PCT • Service re-design and procurement options used to improve outcomes for local people • Involvement of local people and stakeholders in commissioning • Effective challenge to service performance 	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • Notable practice submitted in relation to the provision of updates produced by the Council in respect of the economic downturn • Generally sound arrangements for data quality and security • Improvements made as a result of last years work were not embedded for the period up to 31 March 2009 • Continuing examples of data inaccuracy identified form our spot check work • Performing monitoring arrangements are generally effective and action is taken when poor performance is identified (e.g. Housing Benefits) 	

Appendix 1 – Use of resources key findings and conclusions

KLOE 2.3 (good governance)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • Notable practice submitted to promoting good governance in partnerships • Strong ethical framework and culture • Clear vision by leadership based around the Council's '50 promises' • Good relationships between senior officers and members • Level of training on treasury management for members is low 	
KLOE 2.4 (risk management and internal control)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • Risk management is embedded and a positive risk culture enables innovative projects • Strong anti-fraud culture with a zero tolerance policy • Internal Audit is an effective control mechanism and supports the Audit Committee with robust reporting and challenge concerning potential weaknesses in internal control • A transparent Annual Governance Statement is produced 	

Table 6 Theme 3: Managing resources

Theme score	2
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Appendix 1 – Use of resources key findings and conclusions

Key findings and conclusions	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • Systems and processes to manage the Council’s performance in the use of natural resources are being developed, although they are not yet fully embedded • A high priority is given to sustainability within the Council, particularly at a strategic level • There are examples of effective measures to reduce the use and cost of energy • Partners are involved in the Councils sustainability strategy and work 	
KLOE 3.2 (strategic asset management)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"> • The Council has a strategic approach to the use of assets but this is not yet fully embedded throughout the Council or with partners • A number of different models of sharing, owning and management of public sector assets with key partners are used • The property estate is generally well maintained although there is a significant backlog of maintenance work • Redundant assets are disposed of 	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	Members should continue to monitor the impact of the economic downturn and ensure appropriate action is taken to respond to the impact on asset values and reduced revenue.	High	Members			
7	Members should ensure adequate resources are made available to prepare fully for the implementation of International reporting Standards.	High	Members			

The Audit Commission

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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