SLOUGH BOROUGH COUNCIL

AUDIT COMPLETION REPORT

TO THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2015

21 September 2015

BDO

CONTENTS

OVERVIEW
Significant audit findings

This summary covers the significant findings from our audit of Slough Borough Council (‘Council’) for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Financial statements	Subject to satisfactory completion of the outstanding audit work on page 2, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015. Our final audit materiality is £6.1 million (see appendix II) and we have reported all non-trivial unadjusted audit differences greater than £122,000. We identified two material misstatements in the primary financial statements. These related to the disclosure of the dedicated schools grant, where income and expenditure were both overstated by £25.852 million, and the value of buildings valued on a depreciated replacement cost basis, where of indexation gain of £9.430 million was omitted in the draft financial statements. Management has agreed to amend these in the revised financial statements. This results in a decrease of £9.430 million in the deficit reported on the provision of services for the year (in the Comprehensive Income and Expenditure Statement - CIES), however there is no impact on the general fund balance as the revaluation gain is reversed to the capital adjustment account. We also identified a number of presentational misstatements in the notes for financial instruments, amounts reported for resource allocation decisions, senior officers’ remuneration bandings and exit packages, which are material by nature. Eight unadjusted audit differences were identified during the audit and when combined with a brought forward misstatement from the prior year would increase the draft deficit on the provision of services in the CIES by £137,000 to £8.827 million (from £8.690 million).
Control environment	We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. While some improvement is evident compared to prior years, the Council’s arrangements for preparing effective audit working papers to support the financial statements in specific areas, for example a reconciliation of school balances, are considered to be a significant deficiency in controls. A number of other areas for improvement were identified which we have discussed with management. Some of these are included in the action plan at Appendix IV.
Governance reporting	We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	Our review of the Council’s WGA Data Collection Tool (DCT) will commence when we receive a revised return from officers. The Government’s deadline for submission of the audited return is 4 October 2015. The achievement of that deadline will depend on the quality of the return, its timely receipt and with appropriate working papers. There is a risk the Government’s deadline will not be met because at the time of preparing this report the amendments to the draft DCT have not yet been made.
Use of resources	In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. Due to the significant weaknesses in Children’s Social Care Services identified by Ofsted and the decision of the Secretary of State for Education to direct the Council to transfer Children’s Social Care Services to a new organisation, our value for money conclusion will be qualified for the year ended 31 March 2015.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW
Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit and Corporate Governance Committee meeting.

- Clearance of outstanding issues raised with management regarding:
  - Schools balances
  - A number of queries across a range of balances, transactions and other disclosures.
- Completion of audit testing on a sample of housing benefits expenditure cases
- Letter of assurance from the auditors of the pension fund regarding the operation of controls in the pension fund
- Confirmation from Lloyds bank for four schools bank balances within cash and cash equivalents and from Municipal Bonds for an investment held by the Council
- Review of our audit work and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review and management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work	By 24 September 2015
Audit and Corporate Governance Committee meeting	24 September 2015
Completion and issue of the auditor’s report	By 30 September 2015

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Corporate Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	170,030
Certification fees	27,500
Fees for non audit services:	
- Teachers' pensions return	[1] 3,500
- Pooled capital receipts	[2] TBA
TOTAL FEES	**201,030**

[1] The audit of the teachers' pensions return was removed from the Audit Commission regime in 2013/14. We have agreed with management that we will carry out this review at the same fee as the prior year.

[2] The audit of the pooling of housing capital receipts return has been removed from the Audit Commission regime. DCLG still requires this return to be reviewed and it is expected that we will compete this review. We will be required to produce a separate engagement letter and propose a separate fee as soon as DCLG finalises the work required for this audit.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission's Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.

Key audit staff	Years involved
Robert Grant - Audit engagement partner	3
Janine Combrinck - Audit Manager	3

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES
Code of audit practice requirements

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1. The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.
2. The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
3. The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
4. The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
5. The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
6. The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
7. The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in our 2014/15 Audit Plan issued in March 2015. We subsequently carried out a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we reported our updated risk assessment to the Audit and Corporate Governance Committee in July 2015.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ **Significant risk/issue** ■ **Significant accounting estimates and management judgements** ■ **Other relevant audit and accounting issues**

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition has focused on testing existence, completeness and accuracy of fees and charges across all service areas within the Comprehensive Income and Expenditure Statement (CIES).	No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the correct financial year. However, a number of classification errors have been identified and these are set out in the classification of income and expenditure risk below.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	**ISSUE AND RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
FINANCIAL STATEMENTS PREPARATION	Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements and a significant number of misstatements were identified, particularly in the following areas: • CIES, for consolidation of the Housing Revenue Account (HRA) transactions • Cash Flow Statement and supporting notes • Financial instruments note • Senior officer remuneration bandings note • Amounts reported for resource allocation decisions note • Housing Revenue Account (HRA) notes. As a result of these weaknesses, the Council established an accounts closedown project to manage and oversee the preparation for and delivery of the 2014/15 accounts closedown process. The project plan identified the processes and arrangements that needed to be put in place by the finance team, service areas and third party providers to effectively produce the financial statements for 2014/15 for sign off by the Council's Chief Finance Officer by the beginning of June 2015. The project was overseen by the corporate management team and the (previous) Audit and Risk Committee.	A number of meetings were held with finance officers in the lead up the accounts closedown to discuss progress with the accounts closedown project, risk areas and emerging and contentious accounting issues. We issued a detailed list of audit working paper requirements in December 2014 and briefed finance staff on our expectations for good quality working papers. We carried out a detailed review of the draft financial statements in early July and have provided feedback to the Council. We reviewed the consistency of the financial statements with available working papers at the start of the onsite audit visit. We carried out a high level analytical review of the financial statements against comparatives for 2013/14 and sought explanations from the Council for material variances. In particular, we have carried out a full review of the areas where significant misstatements were identified in the prior year.	From our initial review of the draft financial statements it was clear that they contained fewer inconsistencies than the draft statements provided to us in the prior year. The HRA was correctly consolidated into the CIES and the HRA notes agreed to the HRA and other notes within the financial statements. Our audit of the Cash Flow Statement and supporting notes has not identified any significant issues. Our audit of the other significant risk areas highlighted a number of misstatements as set out below.

FINANCIAL STATEMENTS

Key audit and accounting matters

RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)	Audit of the CIES	Some significant variances were evident in service income and expenditure in the CIES in the draft financial statements for which we were unable to obtain satisfactory explanations at the planning stage. Our audit work found that these related mainly to the following misclassifications between income and expenditure. • Disclosing dedicated schools grant that had been recouped for schools transferring to Academies in the year as expenditure, rather than netting it off income. As a result income and expenditure from education and children's services in the CIES were overstated by £25.852 million. Management has agreed to correct this in the revised financial statements. • Incorrect inclusion of internal recharges of £11.912 million in income and expenditure. Further details provided under internal recharges risk below. • Incorrect mapping of two cost centres to services in the CIES, with the result that adult social care expenditure was understated by £5.988 million, education and children's service expenditure overstated by £5.590 million and environment and regulatory services expenditure overstated by £398,000. Management has agreed to correct this in the revised financial statements. As a result of these misclassifications, we carried out extended testing and have estimated further potential misclassifications of £5.314 million, which are recorded as unadjusted audit differences in Appendix II. • Incorrect transfer of gains on investment properties of £459,000 from services to financing and investment income, resulting in an understatement of service income and expenditure of £459,000.
	Audit of the financial instruments note and the note on nature and extent of risks arising from financial instruments	Our audit identified a number of misstatements in the presentation of these notes, which management has agreed to amend: • Inclusion of cash and cash equivalents, long term debtors, short term debtors (net of impairment allowance and excluding prepayments and balances in respect of value added tax, collection fund arrears and benefit overpayments) in the disclosure of loans and receivables and short term creditors (excluding receipts in advance and balances in respect of payroll, collection fund and benefits subsidy) in financial liabilities • Correction to the disclosure of interest expense • Inclusion of the Icelandic bank deposit in the investments credit risk analysis • Correction of errors in the maturity table for borrowing • Inclusion of other financial liabilities such as creditors, PFI and finance lease liabilities in the liquidity risk analysis • Disclosure of price risk relating to assets held for sale.

FINANCIAL STATEMENTS
Key audit and accounting matters

RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)		The Code of Practice on Local Authority Accounting 2014/15 (the Code) requires that authorities disclose an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired. The Council has not disclosed this information because it cannot readily produce it. Additionally, the maturity analysis for financial liabilities does not meet the Code's requirements for financial instrument disclosures as it has been prepared on the basis of amortised cost rather than undiscounted contractual cash flows.
	Audit of senior officer remuneration bandings and exit packages note	Our audit found a number of misstatements in the note: • Incorrect inclusion of non-taxable expense payments • Omission of schools officers earning over £50,000 who are not paid through the Council's payroll • Omission of exit package accruals • Omission of taxable payments for additional duties or particular projects Management has agreed to amend the revised financial statements for these issues and is in the process of calculating the required amendments. Our audit of the exit packages note found the following misstatements: • Omission of a payment in lieu of notice for one termination • Incorrect inclusion of three people who were redeployed within the Council and therefore did not receive a redundancy payment.
	Audit of the note on amounts reported for resource allocation decisions	Our audit found a number of misstatements in this note, which management has agreed to amend in the revised financial statements.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	**ISSUE AND RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
CLASSIFICATION OF INCOME AND EXPENDITUIRE FOR INTERNAL RECHARGES	Our prior year audit found a significant number of instances where support costs and overheads that were recharged from one service to another within the Council were incorrectly classified within the CIES, resulting in an overstatement of both gross income and gross expenditure. Finance officers recalculated the value of internal recharges and processed an adjustment of to net internal recharge income of £20.443 million off expenditure.	We have agreed the adjustment made by the Council to net off internal recharge income allocated to recharge codes in the general ledger. We substantively tested a sample of journalled income transactions that had not been netted off expenditure to determine whether they related to internal recharges.	Our testing found a number of instances totalling £2.564 million where support costs and overheads that were recharged to the HRA and the capital programme were incorrectly accounted for as service income, rather than netting the recharge off against expenditure. Consolidation of the HRA into the CIES requires that transactions between the general fund and the HRA are eliminated, and in the absence of such a consolidation adjustment, gross income and expenditure in the CIES is overstated. If recharges of revenue expenditure to capital (property, plant and equipment additions) are not netted off, gross revenue expenditure in the CIES is overstated for expenditure that is included in property, plant and equipment. The recharge is in effect a reclassification from revenue expenditure to capital expenditure and should not be accounted for as income. Management has agreed to amend these transactions in the revised financial statements.
SCHOOLS TRANSACTIONS	In the prior year we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves required improvement. In response to our audit findings in the prior year the Council prepared a reconciliation between schools' net income and expenditure position in the general ledger and returns received from the schools.	We have reviewed the schools reconciliation prepared by finance officers, the year-end returns submitted by schools, and schools transactions and balances in the general ledger.	We have not been able to agree the schools transactions in the general ledger to the underlying schools returns and work is in progress to produce a satisfactory reconciliation. The dedicated schools grant income in the CIES is understated by £508,000 for an amount that was notified to the Council after year end. As it relates to the year under audit, this has been recorded as an unadjusted misstatement in Appendix II.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	**ISSUE AND RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
NEW ACCOUNTING STANDARDS FOR CONSOLIDATION	The Code of Practice for Local Authority Accounting 2014/15 includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control for determining whether entities and joint arrangements should be consolidated within the Council's financial statements. The Council has reviewed its investments in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns. In addition, under the new standards the Council has carried out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets.	We have review the Council's justification for its accounting treatment of all material investments in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied. In particular we have reviewed the Council's interest in Slough Regeneration Partnership, Slough Community Leisure Trust, Slough Enterprise, Development Initiative Slough Housing Ltd, Groundwork South, Slough Council for Voluntary Services, St Marys' School Charity and Thames Valley Athletics Centre Trust. We have not identified any other interests under IFRS 10 or 11 which could require consolidation into the Group accounts. We have also reviewed the Council's justification for consolidating or not consolidating schools' non-current assets, including supporting property agreements held by schools.	Having considered the new accounting standards, the Council has not changed its accounting treatment for any its interests in other entities, as the transactions in the other entities are either not material to the Council or the Council's interest in the other entities does not fall within the new definition of control, as it does not make the day to day decisions and is not exposed to variable returns. In the past the Council recognised only community schools on its balance sheet and all voluntary aided, voluntary controlled and foundation schools were off balance sheet. However, as a result of the introduction of IFRS 10 and CIPFA's LAAP bulletin 101, the Council obtained information from all its non-community schools regarding their properties. This information was used to assess whether or not the schools (and therefore the Council) control the building and whether it should be in the Council's accounts. As a result of this exercise, management determined that two foundation schools met the new definition of control and a prior period adjustment of £5.531 million (buildings value at 1 April 2013) was processed to recognise the properties. We are satisfied that the Council obtained sufficient information from the schools regarding their properties and that management's assessment of what needs to be consolidated is in line with CIPFA's guidance.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	ISSUE AND RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
DEFINED BENEFIT PENSION (DBP) SCHEME DISCLOSURES	The disclosure of the defined benefit liability in the financial statements is based on a high degree of estimation. The net pension liability comprises the Council's share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.	We have agreed the disclosures in the defined benefits pensions note to the actuary reports and supporting calculations. The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels. We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary (this assurance has not yet been received).	As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by £56.055 million (to £225.714 million). This comprised an increase in the liabilities of £70.476 million (to £210.680 million) and an increase in assets of £14.421 million (to £436.394 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. The key changes to the financial assumptions relate to: • reduction in the pension increase from 2.8% to 2.5% • reduction in the salary increase rate from 4.6% to 4.3% • reduction in the discount rate from 4.5% to 3.4% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). The reduction in the discount rate has resulted in a significant increase in the present value of the scheme liabilities at 31 March 2015. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. The Fund has out-performed the market for the year, with returns at 7.5%. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	**WORK PERFORMED**	**CONCLUSION**
PROPERTY, PLANT AND EQUIPMENT	Councils are required to undertake additional work to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. In order to address this, the Council has obtained year end desktop reviews of the movement in its property prices from its valuers, and has accounted for indexation based on the indices advised by the valuers. We have reviewed management's use of these indices and compared them to expected movements using other available information to 31 March 2015.	**Valuation of council dwellings** The Council correctly accounted for revaluations as at 1 April 2014. The year-end desktop valuation by the valuer indicated that housing prices increased by 10% in the year and the Council has applied indexation of this value. We are satisfied that this increase is in line with regional movements. **Valuation of other land and buildings** The Council has continued with its rolling programme of revaluations on other land and buildings. The year-end desktop valuation by the valuer indicated that buildings valued on a depreciated replacement cost basis have increased in value by an average of 8.7% during the year. The Council did not apply any indexation to land and buildings in the draft financial statements, with the result that property, plant and equipment was understated by £9.430 million. As the amount is material, management has agreed to recognise the indexation gain in the revised financial statements. We have carried forward our prior year recommendation that management retains sufficient and appropriate justification for the valuation of land and buildings not formally revalued in the year. **Valuation of vehicles, plant and equipment (VPE)** VPE are reasonably short-life assets and the depreciated carrying value is assumed to be a reasonable proxy for their fair value. We are satisfied that the useful economic lives allocated to classes of equipment assets are reasonable. Our testing of a sample of depreciation calculations found that three buildings held under finance lease are being depreciated over lives that are longer than their lease terms, with the result that current year depreciation is understated by £131,000. The impact on brought forward balances is trivial. This is recorded as an uncorrected misstatement in Appendix II.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	**WORK PERFORMED**	**CONCLUSION**
ALLOWANCES FOR DOUBTFUL DEBTS	We have reviewed the methodology used by the Council for calculating its debtor impairment allowances. The provisions are calculated by applying expected writes off rates to the aged debt, based on management's review of outstanding arrears, amounts collected and amounts written off in the current year.	**Housing benefit overpayments impairment** The provision at 31 March 2015 is £6.290 million, which represents 70% of arrears and an increase of £493,000 from the prior year. The percentage of arrears provided for is not unreasonable given the difficulties in recovering this debt, and is not significantly out of line with other authorities. **Council tax arrears and non domestic rates arrears impairments (collection fund)** The overall council tax and non domestic rates provision balances at 31 March 2015 are £7.361 million and £3.062 million respectively. We are satisfied that provision rates are not unreasonable. **Other arrears impairment** The Council has other provisions for housing rent arrears and sundry debtors totalling £2.501 million at 31 March 2015, which are not unreasonable.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	**WORK PERFORMED**	**CONCLUSION**
DEBTORS AND BANK BALANCES	We substantively tested a sample of debtor balances and reviewed bank reconciliations supporting cash and cash equivalent balances.	Our audit of debtors and cash balances found that a receipt of £3 million at year end, for a maturing investment, was incorrectly classified as debtors rather than cash balances. Management has agreed to amend this in the revised financial statements.
REVENUE GRANTS	We tested samples of grants credited to services and taxation and non-specific grant income to supporting documentation from the grant paying body, to assess whether income has been appropriately recognised in the year and correctly classified in the CIES.	Our testing found that a grant of £2.362 million from the Department of Health has been incorrectly classified as non ring fenced. We believe it should be classified as service income as the grant agreement includes restrictions for the income to be spent on adult social care. This misclassification of income in the CIES is recorded as an uncorrected misstatement in Appendix II. In addition, during our testing it was noted that the last quarterly receipt of a grant from the Department of Transport for 2013/14 was accounted for in 2014/15. The impact of the missing accrual in the prior year is an increase in current year income. We have recorded the impact of the prior year misstatement on current year performance in Appendix II.
NON DOMESTIC RATES INCOME	We recalculated the amount of non domestic rates income to be recognised in the taxation and non specific grants note, taking account of the precept and distribution of prior year estimated deficit per the Collection Fund, accruals for the current year surplus, and entries in the Councils 'NNDR 3' return to DCLG.	Our audit of non domestic rates income in the taxation and non specific grants note, found that the income was misstated as a result of the following, which management has agreed to amend: • Incorrect inclusion of a debit entry of £299,000 relating to repayment of a portion of the section 31 grant for non domestic rates, which was misclassified from non ring fenced government grants • Incorrect inclusion of the non domestic rates levy payable of £254,000, which was misclassified from non domestic rates expenditure • Understatement of £581,000 due to misclassification of this income within non-distributed costs in the CIES
COUNCIL TAX RATES INCOME	We recalculated the amount of council tax income to be recognised in the taxation and non-specific grants note, taking account of the precept for the year, distribution of prior year estimated surplus and accruals for the current year surplus.	Our audit of council tax income in the taxation and non specific grants note found that the income was overstated by £451,000 as a result of misclassification of entries within non-distributed costs in the CIES. Management has agreed to amend this in the revised financial statements.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	**WORK PERFORMED**	**CONCLUSION**
INVESTMENT PROPERTIES	We tested a sample of investment properties to rent records or evidence of capital appreciation to check that they are correctly classified as investment properties.	Our testing of a sample of investment properties identified a number of issues, which have been have recorded as uncorrected misstatements in Appendix II: • Incorrect inclusion of three properties with a combined carrying value of £3.068 million that are not held for earning rent or capital appreciation purposes. These should be reclassified to property, plant and equipment. One of the properties had a revaluation gain of £186,000 in the year, therefore the increase in the fair value of investment properties in the CIES is overstated and revaluation gains within service income in the CIES is understated by this amount. • Incorrect inclusion of a property with net carrying value of £136,000. This property is included in the valuation of another asset that was transferred to assets held for sale during the year. Therefore investment properties are overstated and the increase in the fair value of investment properties credited to the CIES is overstated.
INTANGIBLES	We substantively tested a sample of non-current asset additions in the year.	Our testing of a sample of property, plant and equipment additions in the year found that £586,000 for the purchase of the Agresso ERP solution has been capitalised to property, plant and equipment, on the basis that it is not yet operational. As it is a software licence we believe that it should be reclassified to intangibles. This misclassification has been included in the schedule of uncorrected misstatements at Appendix II.
PFI UNITARY PAYMENTS	We compared the unitary payments recorded in the PFI model that is used to generate the accounting transactions to the invoices received from the contractor in the year.	Invoices from the PFI contractor total £6.449 million for the year. This exceeds the value for the unitary payment in the PFI model, with the result that the service concession finance charge is understated and service expenditure is overstated by £306,000. This misclassification of expenditure in the CIES is recorded as an uncorrected misstatement in Appendix II.
CREDITOR ACCRUALS	We tested a sample of year end creditor balances to supplier invoices or other external documentation.	Our testing identified four individually trivial errors, whereby expenditure and creditors were understated. This included an under accrual for temporary staff costs and omission of an in year pay rise in the calculation of the redundancy payments. We have extrapolated these misstatements over the untested population and estimated an overall projected misstatement of £274,000. This is recorded as an uncorrected audit difference in Appendix II.

FINANCIAL STATEMENTS
Key audit and accounting matters

ISSUE	WORK PERFORMED	CONCLUSION
ACCOUNTS DISCLOSURES	We reviewed material accounting disclosures, to confirm that they are correctly stated and in compliance with the requirements of the Code.	Management has agreed to make the following presentational and disclosure amendments to the draft financial statements (we have not repeated issues identified above): • Inclusion of a third Balance Sheet, as the prior period adjustment on school buildings impacts on balances as at 1 April 2013, and presentational changes to the financial statements to correctly disclose the prior period adjustment • Extension of the accounting policy note for recognition of council tax and business rates income in the CIES • Correction to the range of useful economic lives of buildings disclosed in the accounting policy note for depreciation, from 1-35 years to 1-60 years • Disclosure of a non-adjusting post balance sheet event following the announcement by the Chancellor on 8 July 2015 of proposals in the social housing sector that will reduce rents by 1% each year for four years, from 2016/17, as this is likely to have a future impact on the carrying value of dwellings which are valued using a social housing discount • Amendments to the property, plant and equipment note to present the write out of accumulated depreciation on revaluation • Correction to the disclosure of capital commitments in the property, plant and equipment note for the schools primary extension and affordable housing projects, to agree to the revised capital programme for 2015/16 • Inclusion of disclosures for movements in the net book value of PFI assets during the year • Reclassification of Collection Fund balances within the debtors note (no impact on overall balance) • Reclassification of an amount within the cash and cash equivalents note (no impact on overall net balance) • Amendments to the disclosure of movements in the provisions (no impact on closing balance) • Increase in the value of the disclosed capital financing requirement, from £4.307 million to £7.748 million. • Amendment to opening gross cost/valuation and accumulated depreciation of financed leased assets (Council as lessee) in the leases note to correctly present the write out of accumulated depreciation on revaluation in prior years • Amendments to the analysis of future minimum lease payments for finance leases (Council as lessee) and operating leases (Council as lessor) • Amendments to the defined benefits pension scheme note to correct the analysis of opening balances and movements in scheme assets and liabilities, in line with the information provided by the actuary (no impact on overall net liability balance) • Minor amendments to the audit fees note

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	**WORK PERFORMED**	**CONCLUSION**
ACCOUNTS DISCLOSURES (continued)		• Increase the value of HRA surplus assets disclosed in HRA note 2 by £240,000 • Separate disclosure in the Collection Fund of the amount of uncollectable non domestic rates arrears written off in the year and the decrease in the allowance for impairment.
	Review of draft financial statements	The financial statements include a number of notes that are not material, such as assets held for sale, inventories, provisions and agency arrangements. These should be removed as they could distract the users of accounts from the material information in the financial statements. Management has agreed to consider deleting immaterial notes going forward.

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

CONTROL ENVIRONMENT
Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
AUDIT WORKING PAPERS	A detailed file of electronic working papers was provided two weeks after the start of the onsite audit visit. This was later than the previous year, although the working papers provided were found to be more comprehensive than those provided in previous years. Further working papers were provided during the course of the audit. Whilst there has been some improvement in the quality and availability of working papers, there is still significant scope for improvement, particularly in the following specific areas: • Reconciliations of schools balances (see below) • Analyses of the cash and cash equivalent balance and supporting bank reconciliations for all such balances.	Insufficient working papers to support the balances and totals within the financial statements could result in material undetected errors.	Management should carry out a critical review of the outcomes of the 2014/15 audit to identify the areas where further improvements need to be made in producing effective working papers. We will continue to work with finance officers to agree the format of required working papers, particularly in respect of schools balances and banks analyses.
SCHOOLS TRANSACTIONS	**Consolidation of schools transactions** The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) require strengthening. The working papers prepared to support transactions consolidated into the CIES and balance sheet were inadequate.	Our review of the working papers for 2014/15 found that there is insufficient reconciliation between schools balances in the general ledger and the returns received from schools. In addition, a number of the year end returns for 'non-Oracle' schools were missing and had to be requested during the audit. In the absence of effective controls for reconciling schools balances, there is a significant risk of material misstatement in the accounts.	Transactions posted to the general ledger should be reconciled to underlying schools returns, and finance officers should check that year end returns have been received from all schools. Management should complete a review of the consolidation of schools transactions into the accounts as part of the accounts closedown process.

GOVERNANCE REPORTING
Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2015. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us at the start of the audit. We received the draft accounts certified by the Assistant Director Finance and Audit on 30 June 2015, in accordance with the timetable specified by the Government.	Whilst there has been some improvement in the quality and availability of working papers compared to the prior year, there is still significant scope for improvement, particularly in the following areas: • Reconciliations of schools balances • Analyses of the cash and cash equivalent balance and supporting bank reconciliations for all balances. A recommendation for improvement is recorded in Appendix IV.

GOVERNANCE STATEMENT	CONCLUSIONS AND AUDIT ISSUES
We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS	CONCLUSIONS AND AUDIT ISSUES
We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS
Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA Data Collection Tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

CONCLUSION AND AUDIT ISSUES

Our review of the Council's DCT will commence when we receive a revised return from officers. The Government's deadline for submission of the audited return is 4 October 2015. The achievement of that deadline will depend on the quality of the return, its timely receipt and with appropriate working papers. There is a risk the Government's deadline will not be met because at the time of preparing this report the amendments to the draft DCT have not yet been made.

ASSURANCE STATEMENT

Subject to completion of our review, we do not expect to report any issues.

USE OF RESOURCES
Key economy, efficiency and effectiveness matters

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector
- reports from regulators such as Ofsted.

USE OF RESOURCES
Financial resilience

Our risk assessment identified the following significant risks:

- Financial resilience: The Council's Medium term Financial Strategy (MTFS) includes a savings requirement that presents a significant financial risk for the Council. We have reviewed the MTFS to assess the reasonableness of assumptions and how the Council is addressing financial pressures.
- Children's Social Care Services: Following an inspection by Ofsted in 2013 that concluded that insufficient progress had been made in the inspection of arrangements for safeguarding children, the Council has been working with the Department for Education to establish a new model for the delivery of certain Children's Social Care Services. There is a risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2014/15 when it retained direct control for these services. We have gained an understanding of the action taken by the Council during 2014/15 to address Ofsted's recommendations and considered evidence of improved processes and outcomes. We have also considered further correspondence from the Secretary of State received by the Council in October 2014.
- Contract management: Internal Audit's review of contract management in the current year and prior years resulted in several 'red' and 'amber/red' reports and a number of high priority recommendations. There is a risk the Council is not securing value for money from its contract management arrangements. We have reviewed the results of further contract management reviews carried out by Internal Audit and progress being made in implementing (Internal Audit's) recommendations.
- Slough Wellbeing Board: The new Care Act (2014) came into force on 1 April 2015 and the Council should be developing and embedding appropriate governance arrangements for its Better Care Fund (BCF) pooled budgets with clinical commissioning groups (CCGs) to support the integration and transformation of health and social care services. We have reviewed progress being made by the Slough Wellbeing Board against its objectives and the development of governance arrangements for pooled budgets with CCGs under the BCF.

USE OF RESOURCES
Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL GOVERNANCE	AUDIT ISSUES AND IMPACT ON CONCLUSION
The Council's financial governance arrangements provide clear leadership on financial matters through the work of the Cabinet and the Corporate Management Team. The Council's financial performance and associated financial risks are consistently understood across the organisation with financial management information regularly reported to the Cabinet, Council and Overview and Scrutiny Committee. Amongst officers, financial responsibilities are clearly assigned and the Corporate Management Team oversees the corporate response to expenditure pressures, other financial risks emerging in the year and the overall achievement of the annual budget. Financial training courses are provided to employees managing budgets and Members are also periodically invited to attend financial presentations. In March 2014 the Local Government Association completed a sector-led financial peer review. The review covered aspects of Financial Leadership; Financial Strategy, Planning and Forecasting; Decision-making; Financial Outcomes and Partnership and Innovation at Slough. The review team concluded progress has been made over the last two years to improve financial management and that planned savings were being secured. The team noted the publication of the Council's Five Year (Strategic) Plan and recommended a narrative was developed to communicate the high level objectives among staff and stakeholders. The team also identified scope to improve financial accountability, delivery and reporting, which the Council continues to work towards. The Corporate Management Team is overseeing the implementation of the action plan agreed following the review. The outcome of our audit of the 2014/15 financial statements is summarised earlier in this report and contains recommendations which the Council has accepted to further improve arrangements for preparing the annual financial statements and supporting working papers to embed these effectively.	Action is needed in specific areas to further strengthen arrangements for preparing the working papers supporting the annual financial statements and to embed these effectively.

USE OF RESOURCES
Financial resilience

FINANCIAL PLANNING	AUDIT ISSUES AND IMPACT ON CONCLUSION
Financial Planning is embedded across the organisation through the annual budget setting process and updates made to the MTFS. As part of this process, officers are required to develop savings proposals, which are presented to the Corporate Management Team (CMT) and then Members, where achievability is challenged. The MTFS covers a four year period and is updated annually for approval by the Council in February each year. Reports on progress made in updating the MTFS are presented to Cabinet regularly throughout the year. Internal Audit's conclusions on the 2014/15 budget setting process and the 2015/16 budget setting and savings plan development process were both rated 'Green' (meaning that the Council can take substantial assurance that controls are suitably designed, consistently applied and operating effectively). The MTFS adequately defines and records the headline assumptions made in the budget and highlights the key challenges that the Council faces in delivering services with reduced income from central Government grant. It is presented in a user friendly format and includes case studies for potential savings that can be achieved using different scenarios. It recognises the importance of increasing the Council's council tax base and business rates base and improving collection rates, to maximise income from these two key sources. The Council set a balanced budget for 2014/15 in February 2014. This included a savings target of £12.53 million and was supported by a programme of identified savings schemes. Almost all savings were achieved. The Council set a balanced budget for 2015/16 in February 2015. The savings target for the year is £9.79 million and specific schemes have been identified for the full savings requirement, although there is 'High' and 'Medium to High' risk associated with £3.8 million of these schemes and work is in progress to ensure that all required savings are delivered. The MTFS for 2015 – 2019 (which covers the four years from 1 April 2015), as approved in February 2015, indicates a savings requirement of £36.28 million for the period. In July 2015 an MTFS for 2016 – 2020 (which covers the four years from 1 April 2016) was presented to the Cabinet. This shows a remodelled position that takes account of the potential impact of the new Government's future resource plans and the macro financial pledges contained in the Chancellor's budget. Slough has assumed a 25% reduction in Government grants year on year until 2019/20 and a potential savings requirement of £36.14 million over the period. In the most recent MTFS update report, savings schemes totalling £16.55 million have been identified for the four year period from 1 April 2016. These schemes include a range of short and long term proposals, including procurement savings, income generation, transformational and transactional cost reduction, improved business efficiency and disinvestment.	Resource gaps have been identified for the period 2015/16 to 2019/20, where savings plans have not yet been identified. Ensuring financial balance over the medium term planning horizon will continue to require strong leadership and action by the Council.

USE OF RESOURCES
Financial resilience

FINANCIAL PLANNING	AUDIT ISSUES AND IMPACT ON CONCLUSION
To help in identifying savings for the remaining £19.59 million budget gap in the most recent MTFS, the Council has commenced an outcomes based budgeting exercise. To begin this process, the Council’s existing budget has been mapped to its Five Year Strategic Plan outcomes and lead officers are required to provide options about the outcomes that can be delivered at 65% of the current cost. A range of measures are being considered, including utilising capital resources for invest to save schemes, securing long term transformation of services, utilising external funding sources, disinvestment with a clear impact assessment on outcomes, securing additional efficiencies and maximising income generation opportunities. It is important that all the consequences of identified options are fully considered, including the revenue implications of capital invest to save schemes and the capacity of each service department to deliver its schemes. The Council has undertaken a number of benchmarking exercises to compare costs and value for money with other unitary councils, for all key services. The Audit Commission’s value for money tool indicates that the Council has areas of higher and lower comparative costs across some of its service areas. Overall, the Council’s net spend per head of population in 2013/14 was in the highest 20% compared to its nearest statistical neighbours, with expenditure on council tax benefits and housing benefits administration per head being in the highest 10% and spend on adult social care being in the highest third. However, the reasons are well understood by the Council and the benchmarking is being used to help inform where further savings can be achieved going forward through the MTFS.	

USE OF RESOURCES
Financial resilience

FINANCIAL CONTROL	AUDIT ISSUES AND IMPACT ON CONCLUSION
Internal Audit's review of budgetary control and savings plan monitoring for 2013/14 found that controls in this area are generally suitably designed, consistently applied and effective. There was no equivalent review in 2014/15, however we are not aware of any changes in processes. Budget reports are considered monthly by Directorate Management Teams and this is supported by an established budget monitoring process by managers and finance staff. The Corporate Management Team receives monthly reports setting out key issues, risk areas and progress to resolve issues and quarterly reports providing a full analysis of Directorate performance. Overall the Council achieved its budget plans for 2014/15 and contributed £224,000 net underspends to a future budget reserve. It achieved 96% of its £12.53 million savings target for the year. There was a forecast overspend of £0.98 million at the end of the first quarter of 2014/15 but this was managed downwards throughout the financial year. A £1.4 million overspend was reported by the Children and Families Division of the Wellbeing Directorate due to increasing demand for services and the higher cost of agency staff, however this was offset by underspends in other services. The general fund balance as at 31 March 2015 is £8.1 million, which is in line with the previous year and at the Council's minimum approved level. Earmarked reserves have decreased by £6.3 million, to £18.8 million, to resource planned projects in accordance with the Council's priorities. This includes £7.8 million of schools balances per the draft financial statements. Overall usable reserves have increased by £3.8 million. The ratio of non-schools usable reserves to gross revenue expenditure for the Council in 2013/14 is in the lowest 20% compared with the Council's nearest statistical neighbours. During 2014/15 a review of all earmarked reserves was carried out to ensure that these remained appropriate and that any excess amounts were transferred to other reserves or released to support the 2015/16 budget position.	No areas of significant concern.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Children's social care services In 2011, Ofsted judged Slough's services for safeguarding and looked after children to be inadequate. A Safeguarding Improvement Plan was identified and an Improvement Board was established to oversee the action necessary to achieve this. In November 2013 Ofsted completed a review of services for children in need of help and protection, children looked after and care leavers. While recognising improvement had been made in specific areas, Ofsted also concluded other aspects of children's social care services had deteriorated since the 2011 position and judged the services it reviewed as inadequate overall. Ofsted's public report stated 'there are widespread and serious failures that create or leave children being harmed or at risk of harm and serious failures and unnecessary delay in identifying permanent solutions for looked after children which result in their welfare not being safeguarded and promoted'. Ofsted also concluded arrangements for securing the effectiveness of the Local Safeguarding Children Board were inadequate (by Ofsted's definitions) and that the Board could not demonstrate the required skills to discharge its statutory duties. In discussion with the Department for Education (DfE) the Council agreed the work of the Improvement Board would cease as at 31 March 2014 in the expectation that the Secretary of State would exercise powers available to him to direct how Children's Social Care services should be delivered in Slough in the future. In June 2014 an independent research company published a report into Slough's Children's Social Care Services as requested by the DfE. The Parliamentary Under Secretary for the government department considered the report and stated in July 2014 that he (the Minister) was minded to remove Children's Social Care Services from the Council's control. In October 2014 the Secretary of State for Education wrote to the Council about the inadequacies identified by Ofsted in Slough Borough Council's Children's Social Care services. The Secretary of State concluded that the Council was failing to provide the following functions to an adequate standard: a) social services functions, as defined in the Local Authority Social Services Act 1970, so far as those functions relate to children b) the functions conferred on the local authority under sections 23C to 24D of the Children Act 1989 (so far as not falling within paragraph (a) above) c) the functions conferred on the authority under sections 10, 12, 12C, 12D and 17A of the Children Act 2004.	Due to the significant weaknesses in Children's Social Care Services identified by Ofsted and the decision of the Secretary of State for Education to direct the Council to transfer Children's Social Care Services to a Trust, our value for money conclusion will be qualified.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION

The Secretary of State therefore proposed to:

a) appoint a person ('the Commissioner for Children's Social Care') to:

   i. act on behalf of the Secretary of State for the purposes of this direction

   ii. secure improvement in the Council's performance of its children's social care functions pending the formation of a company ('the Trust') to exercise those functions

b) establish, or secure that the Commissioner for Children's Social Care establishes, the Trust.

Pursuant to her powers under section 497A(4B) of the Education Act 1996, the Secretary of State directed the Council to:

a) comply with any instructions of the Secretary of State or the Commissioner for Children's Social Care in relation to the Council's exercise of its Children's Social Care Functions

b) in relation to the establishment, setting up or carrying on of the Trust:

   i. comply with any instructions of the Secretary of State or the Commissioner for Children's Social Care

   ii. provide such assistance to the Secretary of State or the Commissioner for Children's Social Care as they may require

   iii. cooperate fully with the Secretary of State and the Commissioner for Children's Social Care.

In November 2014 the Council agreed a Memorandum of Understanding (MOU) with the Secretary of State for Education to enable the externalisation of the Council's children's services functions to a new organisation to be designed in consultation with the Council. Since then it has been agreed that the new children services organisation (CSO) will take the form of a company limited by guarantee, which will be in place from 1 October 2015. The scope of services to be transferred has been agreed and the Council is in the process of agreeing the associated contract cost. The MOU states that the Council should fund the new organisation to a similar level as currently provided, and the parties have agreed that due consideration needs to be given to the Council's savings targets when setting the contract cost.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION

The MOU provides the Council with assurance that certain transition costs are to be met by the DfE, although there will be a limit on the overall recoverable costs and no reimbursement until the contract with the new CSO commences. The Council is continuing to identify and manage the financial and operational risks associated with the transfer of services to the new CSO.

Since April 2015 the Council commissioned two audit activities in respect of its children's services:

a) a focused review into the effectiveness and impact of the current Quality Assurance Framework

b) an audit programme, funded by the DfE with support from its 'Achieving for Children' programme covering threshold decision making, children subject to child protection plans, domestic violence contacts and case supervision.

The audits found that the threshold decision was generally sound, however there was a lack of consistency around the application of standards and most plans did not contain 'SMART' (Specific, Measureable, Achievable, Realistic and Timebound) targets. The audits have informed a detailed action plan which the Council is working to deliver before services are transferred to the new CSO.

The Council also invited the Local Government Association to undertake two independent peer reviews:

- In November 2014 a safeguarding peer review was undertaken and found that the Council had made progress over the previous twelve months by investing in the service, attracting high quality staff and managers and ensuring they have reasonable workloads alongside an investment in training, development and support
- A review of the support given to looked after children and care leavers was undertaken in February 2015, and concluded that there was evidence improvement with an awareness that there was more to be done to achieve consistent outcomes. The reviewers noted that the Council's focus had understandably been on getting the 'basics' in place.

Overall, the reviews found that while progress had been made there remained significant scope for improvement.

A new Single Improvement Plan was developed which draws together the key areas requiring focus from a number of separate and detailed improvement plans that were in place up to February 2015. The four key priority areas for improvement are recruitment and retention, quality assurance, quality of practice, and leadership and partnership. The plan is now being monitored fortnightly by the Slough Improvement Steering Group, which is chaired by the Interim Director of Children's Services and includes the Children's Commissioner for Slough and a representative from the DfE. This new arrangement is providing focused attention and robust monitoring of the most urgent work that needs to be undertaken in order to improve services for the most vulnerable children in the borough.

Significant budgetary overspends have been incurred in delivering children's services over the past few years and this is partly due to the high use of agency staff in the service. A focus on recruitment and retention in recent months has increased the level of permanent staff from 48% in March 2014 to 54% in March 2015. Since March 2015, there has been a 27% increase in permanent social workers within field work (front line) teams, which the Council estimates has reduced the annual staff costs by approximately £300,000. The Council expects this to improve further during the next few months.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
The Council has reported some positive outcomes as a result of its improvement plans for children's social care services over the last 12 months: • Average social worker caseloads now range from 14 children in Looked After Children and Care Leavers Teams to 21 children in Learning Difficulties and Disabilities Team and Assessment and Child in Need teams. In particular, there has been a significant reduction for the Assessment and Child in Need Teams, which had average caseloads of 36 children at the time of the 2013 inspection. These caseload calculations are now completed on the basis of Consultant Practitioners holding reduced (by 50%) caseloads • Single assessments completed and authorised within timescales have been consistently above 80% for the last 12 months • Children subject to child protection plans visited within the last two weeks have been between 90% and 100% in the last 12 months (compared to 78.9% in November 2013) • The Council is placing fewer children more than 20 miles from home, improving from 24.7% in November 2013 to 15.9% in July 2015. • The number of children in residential care placements has more than halved to 11 in July 2015 (from 23 in November 2013) • In November 2013, only 51% of looked after children were seen alone at their statutory review visits, this has now risen to 75.8% (July 2015). Over 90% of looked after children are receiving six-weekly visits • The long term stability of placements has improved from 50% in November 2013 to 72.3% in July 2015. While recognising some recent, positive outcomes have been reported by the Council in Children's Social Care Services, because of the significant weaknesses identified by Ofsted, the decision of the DfE to transfer the service out of the Council's control, and insufficient evidence of significant and sustainable improvement in the service during 2014/15, we are proposing to qualify our value for money conclusion.	

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Slough Wellbeing Board The Slough Wellbeing Board is in its third year of full operation and its objectives are being taken forward through Priority Delivery Groups (PDGs) and various sub-groups. Quarterly newsletters are published on the Council's website, which set out the work of the Slough Wellbeing Board, relevant national and local developments in NHS and local government and changes in legislation. The PDGs have continued to develop throughout 2014/15 and the first half of 2015/16, and there are now four PDGs: Healthier Communities, Climate change, Safer Slough Partnership, and Children and Young People's Partnership Board. The Council and Slough CCG have recently acknowledged that the Healthier Communities PDG did not have sufficient focus on integrating health and social care, and revised terms of reference for the group have been agreed to address this. It is now co-chaired by Council and CCG representatives and members of the group have a direct link into the Wellbeing Board. The challenge is to work towards a joint integrated commissioning plan that agrees expenditure for all aspects of health and social care, most of which is funded by the NHS, and in particular the majority of health and social care funding that is not in a pooled budget via BCF. During the year the Wellbeing Board received progress reports from the PDGs and on priority areas such as the BCF, housing, mental health, primary care co-commissioning and pharmaceutical needs assessment. Reporting to the Wellbeing Board is generally on an exception basis to highlight areas requiring focus. In June 2014 the Wellbeing Board took part in a development workshop led by the Kings Fund to review the Board's progress in its first year and to discuss future development. It found that the current Board had some significant strengths through its establishment in shadow form and basing its governance arrangements on the outgoing Local Strategic Partnership. The review team also reported the Board had agreed a wide ranging, ambitious and robust Wellbeing strategy and its innovative membership and joint strategy had helped to avoid too narrow a focus on health and social care issues. The team did note there was scope to refresh the Board's membership to improve the balance between NHS and local authority representation. At the time of the review the team felt the Board had yet to demonstrate impact, which reflected the national picture at the time. The team also noted the need to implement a performance management framework to monitor progress effectively across the six PDGs responsible for delivering the Board's 28 priority actions. To address these recommendations, a five point plan to support a new phase in the Board's development was agreed in November 2014, which the Board is working towards. A workshop is planned to agree a set of updated outcomes for a refreshed Slough Joint Wellbeing Strategy for the period 2017 – 2020 and to refresh the vision for the Board. The Council's Policy team is supporting the workshop discussions.	No impact on audit conclusion.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
The new Care Act (2014) came into force on 1 April 2015, significantly reforming the law relating to the care and support of adults and their carers. The requirements of the Care Act are partly supported the creation of a Better Care Fund (BCF) pooled budget, that covers approximately 10% of health and social care services in Slough. A joint BCF Plan was developed with Slough CCG and approved by the Chairman of the CCG, the Council's Chief Executive and the Chairman of the Wellbeing Board. It was submitted to NHS England by the national deadline in September 2014. The plan was developed following consultation workshops with key stakeholders in January 2014, facilitated by the Kings Fund. It sets out how £8.068 million of NHS and local authority resources will be put into a pooled budget in 2015/16, hosted by the Council, to aid the transformation of health and social care in Slough, with the Council and the CCG contributing £0.69 million and £8.762 million respectively. The plan was approved 'with support' by NHS England. There is a clear link between the BCF plan, the Joint Wellbeing Strategy 2013-16, the Joint Strategic Needs Assessment for Slough and the Council's five Year Plan. The BCF plan focuses on a range of activities relating to diversion from accident and emergency care and increasing community based support services, although it is only a part of the overall work that is being carried out in these areas. The BCF vision is being managed through three key work streams, to proactively identify the people most in need of health and social care and to put preventative measures in place; streamline and better integrate the wide variety of health and social care services that are currently in place and make better use of community capacity, such as working with the voluntary sector. A new partnership strategy for working with the voluntary and community sector has recently been implemented to seek to achieve greater clarity around key outcomes for supporting vulnerable adults and following a number of workshops with voluntary and community groups, the Council is currently in the process of procuring new contracts with effect from January 2016. The BCF pooled budget agreement was established under Section 75 of the NHS Act 2006, was approved by the Slough Wellbeing Board and the CCG's Governing Body, and has recently been signed off by the Leader of the Council, the Interim Director of Adult Social Care and the CCG's Chief Finance Officer. At the time of drafting this report it was awaiting legal seal. Sign off was delayed beyond the national deadline of 1 April 2015 while both the Council and the CCG completed work to ensure that the agreement adequately protected any liability towards each organisation.	

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Governance arrangements are in place to monitor the delivery of the BCF plan and the Section 75 agreement. There is a BCF programme manager who coordinates performance monitoring through the use of a BCF programme tracker. Each work stream is led by a senior manager and each project has a designated project manager. Regular monitoring of BCF activity and performance and maintenance of a programme risk register is carried out by a BCF Delivery Group, which meets fortnightly, and is co-chaired by the Council's Interim Director of Adult Social Care and the CCG's Director of Strategy and Commissioning. This work is overseen by a Joint Commissioning Board, which meets on a quarterly basis, and is comprised of two voting members from each of the Council and the CCG. A range of clinical, commissioning and operational officers are invited to the meetings to provide advice and feedback. The Joint Commissioning Board receives updates from the BCF Delivery Group and finance and performance reports. Slough Wellbeing Board is ultimately responsible for ensuring the delivery of the BCF plan and receives quarterly progress reports. The Health Scrutiny Panel also receives regular reports and provides independent scrutiny of the BCF plan progress. The Council's Internal Auditors have recently carried out a review of the BCF governance arrangements and provided an 'Amber/Green' rating, which means the controls in place to manage the risks are suitably designed and consistently applied, however they have identified issues that need to be addressed to ensure that the control framework is effective in managing identified risks. Internal Audit recommended that terms of reference are developed for the BCF Delivery Group, the design of the BCF programme risk register is improved to facilitate effective management of the risks and that risk registers are maintained at project level. Overall, we are satisfied that the Wellbeing Board is progressing with its objectives. A development plan is in place to ensure that it remains fit for purpose for the challenges it faces, including greater integration of health and social care planning and commissioning.	

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

IMPROVING EFFICIENCY AND PRODUCTIVITY	AUDIT ISSUES AND IMPACT ON CONCLUSION
Contract management Internal Audit's reviews of contract management in the prior year identified a number of significant weaknesses. Follow up reviews in 2014/15 found that some steps have been taken to address the issues previously identified, such as benchmarking consultancy costs for individual projects between the contractor and alternative service providers on one of the Council's key contracts, and implementing a performance management system to monitor key performance indicators (KPIs) on another contract. However, Internal Audit's contract management reviews in the current year have identified continuing significant weaknesses in specific contracts. These include issues with the timely and consistent completion of inspection reports carried out by Council staff on the quality of services provided by the contractor, inadequate benchmarking of activities across all services, insufficient KPI reports presented to the Council, inadequate procedures for agreeing KPIs with the provider, lack of transparency over the current cost base, and inadequate validation of performance data to monitor KPIs. Internal Audit's review of procurement in May 2014 resulted in an 'Amber/Green' conclusion, meaning that controls are generally suitably designed and consistently applied however issues were identified that need to be addressed to ensure that the control framework is effective. The Council recognises that improvements in contract management and procurement processes are necessary to drive cashable efficiency savings. It is reviewing its structures and strengthening its contract negotiating resource base, as a number of the Council's significant and long standing contracts are due for re-procurement over the medium term. A programme of training sessions have been held for 16 managers who work on both major and minor contracts, with the aim of improving contract management and negotiating skills. The Council updated its Contract Procedure Rules and Procurement Operating Procedures during the year. An 'e-tendering' portal (known as 'In-tend') is now in place for carrying out tenders. Training on the portal was provided for users and all procurement activity is now expected to proceed via the portal, providing greater transparency to the contracts register. The Procurement Review Board has focused on ensuring compliance with Council procedures. Approval is required from the Board for business cases over £50,000, and for exemptions for contracts not requiring selective or competitive tender and contract award. The Board meets regularly and has agreed terms of reference that define its role. Members of the commissioning team are invited to attend Board meetings where necessary.	There remains significant scope for improvement in contract management processes. . However, we are satisfied that the Council is taking action to identify and address weaknesses in this area, and that the procurement of major contracts over the medium term provides scope for cashable efficiency savings the Council requires to balance its finances.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

IMPROVING EFFICIENCY AND PRODUCTIVITY	AUDIT ISSUES AND IMPACT ON CONCLUSION
Governance has been a major area of focus and there is now a requirement for Strategic Contract Meetings on 'Place' based Contracts involving either a Strategic Director or an Assistant Director. Existing contracts are being reviewed and performance on key contracts is now being reported to the Overview and Scrutiny Committee and other Council panels such as the Neighbourhoods Panel. Benchmarking was also a key area of focus during the year, as it was recognised that measuring supplier key performance is a significant component in achieving value for money. An exercise was carried out to submit data to the Association of Public Sector Excellence (APSE) performance networks and the resultant performance data is being used to set targets for improvements and supplement contractually agreed KPIs. The MTFS assumes savings are delivered from the major contract procurement exercises which are underway across the Council, co-ordinated by a Commissioning Board and the Major Contracts Reprovision Board. An example of this is the housing repairs, maintenance and investment contract which is aiming for market exposure in February 2016 and a provisional start date of November 2017. To inform this exercise the Council is tendering for a full stock condition survey of its social housing, as this is identified as an essential investment to secure value for money from the procurement. The Council is working with the new Children's Services Organisation to agree a suite of Key Performance Indicators. Slough will need to establish arrangements to understand progress towards the KPIs (when these are finalised). The Council should have regard to the developing contract management framework to ensure outcomes are reported consistently and in a timely way to ensure common understanding of performance and any action required. There remains significant scope for improvement in contract management processes. However, we are satisfied that the Council is taking action to identify and address weaknesses in this area, and that the procurement of major contracts over the medium term provides scope for cashable efficiency savings the Council requires to balance its finances.	

USE OF RESOURCES 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 most 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 2015, with the exception of the arrangements for the protection of children, looked after children and care leavers.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Slough Borough Council
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	The persons with responsibility for assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Corporate Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Corporate Governance Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

We identified two material misstatement in the primary financial statements, which management has agreed to amend in the revised financial statements:

- Disclosure of dedicated schools grant in the CIES (£25.852 million)
- Indexation gain on buildings revalued on a depreciated replacement cost basis (£9.430 million)

In addition, we identified a number of presentational misstatements in the following notes which we consider to be qualitatively material:

- Financial instruments note
- Amounts reported for resource allocation decisions note
- Senior officers' remuneration bandings note
- Exit packages note.

These amendments, together with the other non-material amendments that have been processed, have not had any impact on the deficit for the year or the general fund balance.

UNADJUSTED AUDIT DIFFERENCES

Eight unadjusted audit differences were identified during the audit and when combined with a brought forward misstatement from the prior year would increase the draft deficit on the provision of services in the CIES by £137,000 to £8.827 million (from £8.690 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

IMPACT ON CURRENT YEAR REPORTED PERFORMANCE FOR PRIOR YEAR AUDIT DIFFERENCES

In the current year's financial statements the Council has adjusted for two misstatements that we identified in the prior year audit (where prior year net expenditure was understated by £648,000). Our current year's audit also identified income of £272,000 that should have been accounted for in the prior year instead of the current year. The current year's net expenditure and deficit is higher by a net £376,000 as a result of accounting for these transactions in the current year.

APPENDIX II: AUDIT DIFFERENCES
Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
CIES deficit on the provision of services before adjustments (per draft financial statements)	**8,690**				
Dr Reserves (revaluation reserve and/or capital adjustment account)				398	
Dr Loss on disposal of non-current assets in the CIES	104	104			
Cr Property plant and equipment (other land and buildings)					(502)
Dr Capital adjustment account				104	
Cr General Fund (through the Movement in Reserves Statement)*					(104)
Impact of brought forward misstatement relating to incorrect Depreciated Replacement Cost (DRC) (factual misstatement)					
Dr Adult social care expenditure		5,314			
Cr Education and children's services expenditure			(4,961)		
Cr Environment and regulatory services expenditure			(353)		
Misclassification of cost centres to services in the CIES (projected misstatement)					
Dr Debtors				508	
Cr Income - Education and children's services	(508)		(508)		
Dr General Fund (through the Movement in Reserves Statement)*				508	
Cr Schools earmarked reserves					(508)
Understatement of dedicated schools grant (factual misstatement)					
Dr Depreciation	131	131			
Cr Property, plant and equipment - land and buildings					(131)
Dr Capital adjustment account				131	
Cr General Fund (through the Movement in Reserves Statement)*					(131)
Understatement of depreciation on finance leased assets (estimation misstatement)					
Dr Property, plant and equipment - land and buildings				3,068	
Cr Investment properties					(3,068)
Dr Increase in fair value of investment properties		186			
Cr Revaluation gains credited to the deficit on provision of services - service income			(186)		
Overstatement of investment properties for three properties that should be reclassified to property, plant and equipment (factual misstatement)					

APPENDIX II: AUDIT DIFFERENCES
Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
Dr Change in the fair value of investment properties in the CIES	136	136			
Cr Investment properties					(136)
Dr Capital adjustment account				136	
Cr General Fund (through the Movement in Reserves Statement)*					(136)
Overstatement of investment properties for a building that is included in the valuation of another asset that was transferred to assets held for sale during the year(factual misstatement)					
Dr Intangibles – software licences				586	
Cr Property, plant and equipment – assets under construction					(586)
Misclassification of Agresso licence within property, plant and equipment rather than intangibles (factual misstatement)					
Dr Service concession interest		306			
Cr Education and children's services expenditure			(306)		
Misclassification of expenditure relating to the PFI liability as actual unitary payments invoiced for the year exceed the expected amount in the PFI model *(factual misstatement)*					
Dr Service expenditure in the CIES	274	274			
Cr Creditors					(274)
Extrapolation of potential errors as a result of incomplete expenditure accruals identified by our audit testing *(projected misstatement)*					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**137**	6,451	(6,314)	5,439	(5,576)
CIES deficit on the provision of services after adjustments	**8,827**				

The misstatements indicated by an * do not impact on the closing general fund balance as they would be reversed to other reserves through the Movement in Reserves Statement, if corrected. The overall impact of the projected misstatements above may reduce the general fund balance by £274,000.

APPENDIX II: AUDIT DIFFERENCES
Unadjusted audit differences

UNADJUSTED DISCLOSURE MATTERS

The financial statements include a significant number of notes and disclosures that are not material and should be removed, such as intangibles, assets held for sale, inventories, grants received in advance and associated accounting policies.

The note on the nature and extent of risks arising from financial instruments does not disclose an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired. The Council has not disclosed this information because it cannot readily produce it.

Additionally, the maturity analysis for financial liabilities does not meet the Code's requirements for financial instrument disclosures as it has been prepared on the basis of amortised cost rather than undiscounted contractual cash flows.

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY	
Planning materiality	£6,500,000
Final materiality	£6,100,000
Clearly trivial threshold	£122,000

Planning materiality of £6,500,000 was based on 1.5% of gross expenditure in the draft CIES. Due to the misstatements identified by the audit, gross income in the revised financial statements has decreased by £37.305 million. We have therefore revised our final materiality level.

Triviality was based on 2% of final materiality.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN
Follow up of prior year recommendations

CONCLUSIONS FROM WORK	OUTCOME OF FOLLOW UP	CURRENT RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Working papers A detailed file of electronic working papers was provided to us at the start of the audit, in accordance with the agreed timetable. However, our review of these working papers found a number of gaps and quality issues. Comparison to the detailed schedule of working papers provided to the Council found that only a third of the working papers were in sufficient detail to allow an effective starting point for the audit of those sections.	A detailed file of electronic working papers was provided two weeks after the start of the onsite audit visit. This was later than the previous year, although the working papers provided were found to be more comprehensive than those provided in previous years. Further working papers were provided during the course of the audit. Whilst there has been some improvement in the quality and availability of working papers, there is still significant scope for improvement, particularly in the following areas: • Reconciliations of schools balances (see point below) • Analyses of the cash and cash equivalent balance and supporting bank reconciliations for all balances.	Management should carry out a critical review of the outcomes of the 2014/15 audit to identify the areas where further improvements need to be made in producing effective working papers. We will continue to work with finance officers to agree the format of required working papers, particularly in respect of schools balances and banks analyses.	The majority of working papers were deposited onto the agreed SharePoint site at the start of the audit. These were produced and referenced in the agreed revised format. Whilst this was a major improvement on previous years, management will review the working papers and practices and work with the external auditors to improve them further. A particular exercise will be carried out in respect of schools balances.	Corporate financial controller	January 2016
Consolidation of schools transactions The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) are ineffective. The working papers and journals prepared to support transactions consolidated into the CIES and balance sheet were inadequate.	Our review of the Council's working papers for 2014/15 found that there is insufficient reconciliation between schools balances in the general ledger and the returns received from schools. In addition, a number of the year end returns for 'non-Oracle' schools were missing and had to be requested during the audit. In the absence of effective controls for reconciling schools balances, there is a significant risk of material misstatement in the accounts.	Transactions posted to the general ledger should be reconciled to underlying schools returns, and finance officers should check that year end returns have been received from all schools. Management should complete a review of the consolidation of schools transactions into the accounts as part of the accounts closedown process.	A critical review of Schools working papers and requirements will be undertaken at the end of the audit. We will work with the external auditors to improve the quality and quantity of working papers.	Corporate financial controller	December 2015

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN
Follow up of prior year recommendations

CONCLUSIONS FROM WORK	OUTCOME OF FOLLOW UP	CURRENT RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Property valuations Management should more fully document its thought process and evidence to support the representation that the carrying values of all assets remain materially accurate as fair value at year end.	There remains scope for improvement in the Council's evidence supporting the carrying value of properties that have not been revalued in the year.	Management should more fully document its thought process and evidence to support the representation that the carrying values of non-current assets that have not been formally revalued in the year remain materially accurate as fair value at year end.	Agreed.	Corporate financial controller	January 2016
Depreciation of non-current assets: Useful economic lives (a) Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets. (b) The fixed assets register should be updated to ensure that all assets are appropriately depreciated in accordance with the Code requirements. (c) The fixed assets register should be updated to ensure that leased assets are being depreciated over the shorter of the lease life or the expected life of the asset.	There remains scope for improvement in the evidence supporting management's annual review of useful lives, depreciation methods and residual values of all classes of assets. Our audit work found no issues with regards to depreciation calculations except for depreciation on leased assets. Part (b) of the recommendation is considered to be implemented.	Management should more fully document its annual review of useful lives, depreciation methods and residual values of all classes of assets, particularly where assets have not been formally revalued. The fixed assets register should be updated to ensure that leased assets are being depreciated over the shorter of the lease life or the expected life of the asset.	Agreed.	Corporate financial controller	January 2016

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN
Follow up of prior year recommendations

CONCLUSIONS FROM WORK	OUTCOME OF FOLLOW UP	CURRENT RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
Capital expenditure on council dwellings Each year the Council incurs expenditure on the refurbishment of its housing stock. The amount is derecognised from property, plant and equipment as a proxy for the deemed carrying amount of the replaced components. This treatment is acceptable under the Code, however the Code Guidance notes for practitioners states that this amount should be adjusted for any depreciation and impairment.	The Council has estimated the value of components to derecognise from property, plant and equipment in order to write out replaced components.	None	N/A	N/A	N/A
Accrual for special education needs (SEN) Management should ensure that the year end accrual for out-of-borough special education need placements is estimated by taking account of the actual number of placements and the expected cost for each; in the light of the accuracy of the prior year accrual.	There remained a number of issues regarding the working papers provided to support the year end SEN accrual. In addition these do not clearly show how the prior year accrual compared to the actual payments made post year end and therefore the extent of any under/over accrual from the prior year impacting on the current year.	Management should carry out a critical review of the working papers produced to support the year end SEN accrual to ensure that they fully evidence all assumptions made and any impact from prior year under/over accruals.	The critical review of all schools working papers will include SEN accruals.	Corporate financial controller	January 2016

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

Follow up of prior year recommendations

CONCLUSIONS FROM WORK	OUTCOME OF FOLLOW UP	CURRENT RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT					
Fixed assets register Management should ensure that Internal Audit's recommendations on the asset register review in 2013/14 are fully implemented in accordance with agreed timelines.	Internal Audit's conclusion on the asset register in 2014/15 is rated amber/red and there are high priority recommendations relating to the creation of asset management procedures that clearly outlines the responsibilities of all involved departments and staff and the establishment of formal written verification procedures covering the requirement for regular reconciliations to be completed between the asset register and Council property management system.	Management should implement Internal Audit's recommendations in respect of controls over the fixed asset register.	Agreed.	Corporate financial controller	January 2016
Purchase orders Management should monitor compliance with its new 'No Purchase Order, No Pay' policy as failure to comply with this policy could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.	Throughout 2014/15 a number of purchase requisitions have continued to be raised retrospectively (11 out of25 tested by Internal Audit), despite the Council's 'No Purchase Order, No Pay' policy implemented from 1 April 2014.	Management should continue to monitor compliance with its new 'No Purchase Order, No Pay' policy, as failure to comply with this policy could result in the Council committing itself to inappropriate expenditure or incurring expenditure in excess of allocated budgets.	Management has continued to monitor this and there is some minor progress. A review is being undertaken by finance to review blockages and utilise learning to improve performance for when Agresso is implemented	Corporate financial controller	January 2016
Employment Taxes Management should monitor the implementation of the recommendations raised by BDO's employment taxes specialist.	From review of Internal Audit's report on employment tax in 2014/15, we are satisfied that the majority of our prior year recommendations have been implemented. BDO's review of employment tax in 2014/15 has resulted in two new recommendations below.	N/A	N/A	N/A	N/A

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

New recommendations arising in 2014/15

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Supplier amendment forms Internal audit's review of expenditure and creditors in 2014/15 found that amendments to supplier forms are made using a new supplier form. This means that amendments are not clearly set out. They also found that some of the forms were not authorised. Furthermore, 8 of 20 new supplier forms tested could not be located or were not appropriately signed. There is a risk that incorrect or fraudulent changes could be made to supplier details.	The Council should implement Internal Audit's recommendations regarding the correct use and authorisation of supplier amendment forms.	Agreed.	Corporate financial controller	January 2016
Housing rents system Internal Audit's review of rent accounts in 2014/15 identified three tenancies (from a sample of 25) for which the Capita system did not reflect the correct rental charge. This occurred because the tenancy agreements had not been forwarded to the Arvato rent accounting team to make the necessary adjustments. There were a further six instances in which the tenancy agreement could not be located. There is a risk that rental income may not be correctly billed and accounted if controls in this area are not operating effectively.	The Council should implement Internal Audit's recommendations regarding updating of the rents system for new tenancies.	Agreed.	Corporate Finance Business Partner - Housing	January 2016

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN
New recommendations arising in 2014/15

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Register of interests Our testing of the completeness of related party transactions identified a couple of instances where directorships held by councillors were not included in the register of interests. The Council has no transactions with the relevant companies and there is no impact on related party transaction disclosures. However, all directorships should be declared so that any conflicts of interest can be identified in procurement decisions.	The Council should issue further guidance to Councillors and officers to clarify that all directorships should be declared, irrespective of whether the Council currently has any transactions with the other entity.	Agreed – further guidance to be issued	Head of Democratic Services	January 2016
Employment tax: Personal Service Companies for office holders Where office holder posts are filed by personal service companies, HMRC could challenge that PAYE/NIC is due on the officer holders' fees.	Management should review any such arrangements and consider paying these fees via the payroll payroll going forward and making a disclosure to HMRC.	A review of these arrangements has already been carried out with payroll, HR and our external temporary staff provider to ensure that the risk has been minimised. We will continue to monitor this situation.	Corporate financial controller	January 2016
Employment tax: personal mobiles Occasionally employees have a contribution towards their personal mobile phone bill reimbursed via expenses. If this is not an identifiable actual cost, as a reimbursement of a pecuniary liability, the contribution is taxable as earnings and should be included in the payroll for PAYE/NIC purposes. Reimbursement of actual business calls plus VAT is allowable on production of an itemised bill confirming an additional cost has arisen.	Management should review these payments going forward and include them in the payroll unless business calls can be identified.	A review of this will be carried out after the audit	Corporate financial controller	January 2016

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

New recommendations arising in 2014/15

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
GOVERNANCE REPORTING				
Immaterial disclosures The 2014/15 financial statements include a significant number of notes and disclosures that are not material and should be removed, such as intangibles, assets held for sale, inventories, grants received in advance and associated accounting policies. Inclusion of irrelevant or immaterial disclosures in the financial statements decreases the usability of the financial statements and detracts from the required material disclosures.	Going forward the Council should review its draft financial statements and remove all immaterial notes and disclosures.	As part of the normal closure of accounts programme a critical review of the previous year's closure will be carried out and the statements will be streamlined wherever possible whilst ensuring that the code of practice is still followed.	Corporate financial controller	January 2016

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)	**Financial statements section of this report**		
Significant difficulties encountered during the audit (ISA 260)	**Financial statements and Governance sections of this report**		
Significant matters discussed or subject to correspondence with management (ISA 260)	**No issues**		
The final draft of the representation letter (ISA 260)	**Appendix VI**		
Independence (ISA 260)	**No issues**		
Fraud and illegal acts (ISA 240)	**No issues**		
Non compliance with laws and regulations (ISA 250)	**No issues**		
Significant deficiencies in internal control (ISA 265)	**Control environment section of this report**		
Misstatements, whether or not corrected by the entity (ISA 450)	**Appendix II**		
Significant matters in connection with related parties (ISA 550)	**No issues**		
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)	**No issues**		
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)	**Use of resources section of this report**		
Material inconsistencies with other information in documents containing audited financial information (ISA 720)	**No issues**		
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998	**No issues**		

APPENDIX VI: DRAFT REPRESENTATION LETTER

TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

24 September 2015

Dear Sirs

Financial statements of Slough Borough Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director of Finance and Audit (Section 151 officer) has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no other events since the balance sheet date other than those that have been disclosed in the financial statements, which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

(a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of increase in salaries 4.3%
- Rate of increase in pensions / RPI 2.5%
- Rate for discounting scheme liabilities 3.4%
- Take up option to convert the annual pension into retirement grant- pre 31 March 2008 50%
- Take up option to convert the annual pension into retirement grant- post April 2008 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of housing stock

We are satisfied that the useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert value appointed by the Council to provide this information.

We are satisfied that the componentisation split for council dwellings, of 15% for land and 85% for buildings, is reasonable.

We confirm that the index of 10% applied to council dwellings, as provided by the valuer and accounted for in the financial statements, is reasonable and consistent with our knowledge of the business and current market prices.

(c) Carrying value of land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2015. We confirm that no further adjustments are required to those assets that were not revalued in the year.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2015 is consistent with our knowledge of the business.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Yours faithfully

Joseph Holmes

Assistant Director of Finance and Audit

24 September 2015

Councillor Chohan

Chair of the Audit and Corporate Governance Committee

Signed on behalf of the Audit and Corporate Governance Committee

24 September 2015

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