SLOUGH BOROUGH COUNCIL

AUDIT FINDINGS REPORT TO THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Committee 21 September 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit and Corporate Governance Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

This report has been prepared solely for the use of the Audit and Corporate Governance Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

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

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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- At the time of drafting this report our audit work is still in progress and a number of audit tests and enquiries are yet to be completed or resolved. There have been delays in obtaining appropriate working papers and supporting documentation for our audit samples this year, which is partly due to a change in the general ledger system during the year.
- The national deadline for the Council to publish its final audited Statement of Accounts is 30 September 2016. Given the amount of work that remains in progress at the timing of issuing this report, there is a risk that the deadline may not be achieved. We will update the Audit and Corporate Governance Committee at its meeting on 29 September 2016.
- Subject to the completion of audit work and resolution of matters set out in the outstanding matters section of this report, we have completed our audit procedures in accordance with the planned scope and our objectives will be achieved when we have completed the outstanding audit work.
- One additional significant audit risk was added to our planned approach subsequent to the planning report presented to you in February 2016. This related to the legality of the Council's three Lenders' Option Borrower's Option (LOBO) loans.
- We revised our materiality levels using the gross expenditure value in the draft financial statements, which reduced our planning materiality from £8 million to £7.7 million.
- There have been no other changes to our planned audit approach nor were any restrictions placed on our work.

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the outstanding matters section of this report , we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We have recommended a number of amendments to the Annual Governance Statement, including disclosure of key issues identified by Internal Audit during the year. Subject to these amendments, we have no matters to report on the Annual Governance Statement in our audit opinion.
- Due to significant weaknesses in children's social care services identified by Ofsted during 2015/16, and insufficient monitoring of contractual performance of the service after it transferred to Slough Children's Services Trust on 1 October 2015, our value for money conclusion will be qualified on an 'except for' basis.
- Except for weaknesses in the arrangements for children's social care services during the year, we are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness from its use of resources for the year ended 31 March 2016.

SUMMARY

KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
  1. There is significant scope for improvement in the quality of the financial statements and the quality and timely availability of the underlying working papers. A number of the issues identified by the audit are similar to those reported in the previous years.
  2. Our audit has identified a large number of misstatements and management has agreed to amend the financial statements for the majority of these issues.
  3. This includes one material misstatement of £9.235 million in respect of an overstatement of property, plant and equipment, as replaced components were not derecognised when capital expenditure was incurred on council dwellings.
  4. These amendments are expected to decrease the surplus on the provision of services by £18.199 million, from £26.413 million reported in the draft financial statements to £8.214 million in the revised financial statements, although there is unlikely to be any significant impact on the General Fund as the majority of these amendments relate to technical accounting adjustments which will be reversed to unusable reserves.
  5. Our audit also identified a number of presentational misstatements in the notes for dedicated schools grant, financial instruments, senior officers' remuneration and exit packages and amounts reported for resource allocation decisions, which we consider to be either quantitatively or qualitatively material.
  6. There are nine unadjusted audit differences identified by our audit work (including one combined misstatement brought forward from the prior year audit) which would decrease the surplus on the provision of services in the revised financial statements by £457,000, from £8.214 million to £7.757 million, if adjusted.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- Our review of the Council's Whole of Government Accounts (WGA) data collection tool will be carried out when we have received a revised draft of the financial statements. The national deadline for submission of the audited data collection tool has been deferred to 21 October this year.
- The Council has £13 million borrowing in the form of lenders' option borrower's option (LOBOs). A national issue has recently come to light as to the lawfulness of authorities' decisions to take this form of borrowing. If it were determined that the Council's LOBOs were unlawful at the time that they were taken out, it is considered unlikely that any restitution would result in a material additional liability for the Council (in excess of the £13 million principal liability already in the accounts). However, we are awaiting further technical guidance on this issue before we can conclude on it. We will provide a verbal update to members at the Audit and Corporate Governance Committee.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated 25 February 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have identified one additional significant risk regarding the legality of the Council's three Lenders' Option Borrower's Option (LOBO) loans.

NATURE OF RISK	RISK DESCRIPTION	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present 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 to 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 to the financial statements. Our work on accounting estimates is still in progress, however we have not identified any evidence of bias from work completed to date.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in 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. In particular, we consider there to be a significant risk in relation to the completeness and existence of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).	Our review of revenue recognition has focused on testing completeness and existence of fees and charges across all service areas within the CIES.	No issues have been identified by our testing of revenue from fees and charges which impacts on the net cost of services. Our testing on year end cut off with regard to the recognition of revenue in the correct financial year is still in progress.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION	Our prior year audit identified weaknesses in the Council’s arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified, particularly in the following areas: • disclosure of dedicated schools grant for amounts recouped in respect of schools transferring to academy status • accounting for internal recharges in income and expenditure • mapping of cost centres to services in the CIES • financial instruments notes • senior officer remuneration bandings and exit packages note • note on amounts reported for resource allocation decisions • disclosure of the new Better Care Fund pooled budget with NHS Slough Clinical Commissioning Group • detailed analysis of the cash and cash equivalents balance and supporting cash reconciliations. We also identified a risk over the Slough Children’s Services Trust using the Council’s general ledger system for part of the year.	A number of meetings were held with finance officers in the lead up to the accounts closedown to discuss progress with the accounts closedown project, risk areas and emerging and contentious accounting issues. We rolled forward our detailed list of audit working paper requirements and briefed finance staff on our expectations for good quality working papers. We carried out a detailed review of the draft financial statements in July and have provided feedback to the Council. We carried out a high level analytical review of the financial statements against comparatives for 2014/15 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 a similar level of inconsistencies compared to the draft statements provided to us in the prior year. The majority of the electronic working papers were provided to us two weeks after the start of the onsite audit visit. Further working papers were provided during the course of the audit. There is still significant scope for improvement in the quality of the financial statements and the quality and timely availability of the underlying working papers. Our audit of this significant risk highlighted a number of misstatements as set out below.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)	Audit of the of dedicated schools grant (DSG) note	In the draft DSG note, the Academy recoupment figure was incorrectly added to the DSG value before recoupment rather than deducting the amount, so the total DSG after academy recoupment was overstated by £139.102 million (£215.307 million rather than £76.205 million). A further adjustment of £399,000 was made to the DSG balance and Academy recoupment for early years block, however these has no impact on total DSG after recoupment balance. Management has agreed to correct both of these disclosure errors in the revised financial statements.
	Audit of internal recharges of income and expenditure	We have agreed the adjustment made by the Council to net off internal recharge income allocated to recharge codes in the general ledger against related expenditure. 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 identified a number of transactions which had been coded to CIPFA code 96 (Internal Departmental Recharge Income) and 95 (Central Recharges) which should have been netted off expenditure, resulting in an overstatement of both income and expenditure in the CIES of £2.778 million. Management has agreed to correct this in the revised financial statements.
	Audit of the mapping of cost centres to services in the CIES	Within our sample testing of expenditure, we found that two cost centres were incorrectly mapped to services in the CIES, with the result that central services to the public is understated and planning services is overstated by £351,000, and public health is understated and environmental and regulatory services is overstated by £345,000. Management has agreed to correct this in the revised financial statements. As a result of these expenditure misclassifications, we carried out extended testing and have estimated further potential misclassifications of £1.294 million, which is recorded as an unadjusted audit difference in Appendix II *(audit difference number 2)*. Within our sample testing of income, we found that one cost centre was incorrectly mapped to services in the CIES, with the result that adult social care is understated and children's and education services is overstated by £4.654 million. This relates to a new income stream in the year, being the Better Care Fund contributions from NHS Slough Clinical Commissioning Group. Management has agreed to correct this in the revised financial statements. As a result of this income misclassification, we carried out extended testing and no further errors were identified. We have not extrapolated this error as we can ringfence it to the new income stream.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)	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 in the revised financial statements as follows: • Inclusion of cash and cash equivalents, short term debtors (net of impairment allowances 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 benefit subsidy) in financial liabilities • Adjustments to a number of balances in the draft note to reconcile to elsewhere in the financial statements • Additional disclosures on input levels required under the new IFRS 13 accounting standard • Reclassification of balances in the maturity table for borrowing. The Code of Practice on Local Authority Accounting 2015/16 (the Code) required 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 the senior officer remuneration bandings and exit packages note	Our audit found a number of misstatements in the note, which management has agreed to amend in the revised financial statements as follows: • Inclusion of a footnote to explain that current year exit package disclosures include two individuals who left the organisation in 2015/16 but were notified of their redundancies in 2014/15 (should have been included in the prior year disclosure). • Inclusion in the senior officers' remuneration note of the current postholders for children's services and adult social care • Inclusion of the pension element of the compensation for loss of office disclosed in the senior officers' remuneration note. No issues were identified with the remuneration bandings table, which correctly includes schools staff who are both on and off the Council's payroll.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)	Audit of the note of amounts reported for resource allocation decisions	Our audit identified a number of misstatements in the note, which management has agreed to amend in the revised financial statements: • Inconsistencies between the note and balances elsewhere in the financial statements • Allocation of recharges to be correctly disclosed for income and expenditure netted off.
	Audit of the disclosure of the new Better Care Fund pooled budget with NHS Slough Clinical Commissioning Group	Our audit identified a number of misstatements in the presentation of the pooled budget note, which management has agreed to amend in the revised financial statements as follows: • Inclusion of the Better Care Fund (BCF) with NHS Slough CCG as a pooled budget • Additional disclosures to explain that the intermediate care services and community equipment services disclosed in the prior year are now part of the larger BCF pool. We also identified an overstatement of income contributions from NHS Slough CCG for BCF which is reported below.
	Audit of the cash and cash equivalents balance and supporting bank reconciliations	The working papers provided for audit were not sufficient to identify the nature of the reconciling items between the bank statement balances and the trial balance. The bank reconciliations were reperformed by Avarto, as a result of our audit queries, and we identified a number of issues which management has agreed to correct in the revised financial statements as follows: • Reversal of £6.263 million from cash and creditors for an amount relating to housing benefit subsidy income received in March 2016 that was incorrectly included in these balances in the posting of a journal adjustment • Removal of £2.781 million incorrectly included in cash held within the miscellaneous cash control account at year-end and £1.477 million from the cash in transit account, and increase debtors by £4.258 million. • Reallocation of a balance of £14.934 million of unallocated cash receipts held in various suspense accounts which are reducing the total cash balance. This balance should have been cleared down by year end and appropriately reallocated. Finance officers are currently confirming which accounts the balance should be reallocated to. • Correction for a brought forward reserve balance erroneously mapped to bank and cash in the data migration, with the result that bank is understated by £232,000 and earmarked reserves understated by £232,000 • Reduction of bank and creditors balances by £960,000 for a BACS payment at year end that was not correctly classified in the general ledger resulting in an overstatement of bank and creditors (the total of the payment per the accounts is £2.389 million however the listing of payments at year end traced to the April 2016 bank statement is £3.199 million, resulting in a difference of £960,000)

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED	CONCLUSION
FINANCIAL STATEMENTS PREPARATION (continued)	Check that Slough Children's Services Trust transactions are appropriately excluded from the Council's accounts	The Council recognised individual transactions incurred by children's services from April to September 2015 in its ledger prior to the transfer of services to the Slough Children's Services Trust. From October 2015 to January 2016 the Trust's transactions continued to be included within the Council's ledger. The Council was due to pay the Trust a contractual monthly fee however the Council was instead paying for the Trust's individual transactions. A reconciliation was performed to identify the net receipt or payment to meet the contractual amount, and a net payment of £375,000 to the Trust before year end. From February 2016, the Council made monthly contractual payments to the Trust, and the Trust's transactions are correctly excluded from the Council's general ledger. In additional to the monthly contractual amounts, the Council paid a further upfront payment of £4.218 million to the Trust as a loan which will be recouped at the end of the contract. This is included in long term debtors. As a result of our audit, management has agreed to reallocate this debtor from balances with central government to balances with other entities within the debtors note. We are satisfied that all transactions relating to the Slough Children's Services Trust are correctly allocated to the children's and education services line in the CIES.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION	WORK PERFORMED	CONCLUSION
CHANGE IN GENERAL LEDGER SYSTEM	The Council changed its general ledger system from Oracle to Agresso on 1 February 2016. Our planning identified a risk that the general ledger transactions from 1 April 2015 to the date of the transition may not have been accurately and completely transferred between the systems. Internal Audit performed a review of the transfer of balances and a draft report was issued to management in July 2016. Internal Audit concluded that overall balances transferred to Agresso corresponded to Oracle however issues were identified with • The mapping of the chart of accounts • 2,183 exceptions with regards to the transfer of individual account balances • Balance of £25.6 million transferred to a Data Migration Suspense account relating to miscellaneous account codes used historically in Oracle, although some of this had been cleared down to £662,000. These findings led to Internal Audit reporting a partial assurance opinion.	We reviewed management's reconciliation for the transfer of transactions and Internal Audit's working papers, in particular the reported 2,183 exceptions. These related to 505 different account Agresso codes of which: • 150 codes had a nil balance so no further review performed • 20 codes relates to balance sheet codes, whereby we have agreed the year-end balances to subsidiary systems as part of our audit testing on non-current assets, debtors and creditors • 260 codes had been mapped to the incorrect analysis code, however the account code and cost centre code were both correct therefore there no impact on the financial statements • 75 codes were mapped to account codes which had no corresponding codes in Agresso, however the total value of these codes is trivial. In addition, we reviewed the trial balance for data migration suspense account balances and identified the following • £4.180 million AP suspense • £5.625 million AR suspense • £582,000 P&L suspense • £525,000 bank suspense • £230,000 balance sheet suspense.	We are satisfied that the general ledger transactions are not materially misstated as a result of the data migration exceptions. We are also satisfied that the accounts are not misstated as a result of the uncleared data migration suspense account balances. These balances have been included in our sample testing of debtors, creditors and income, and the bank suspense account is part of the bank reconciliation working papers. We have not identified any issues with regards to the validity of these balances. We are satisfied that these balances just need to be reallocated to other account codes and we have reported a recommendation to that effect in Appendix III. Within our testing of income and expenditure, and debtors and creditors, we identified a number of issues with the mapping of the new chart of accounts which are reported above. Management should also ensure that the account code names correctly reflect the nature of the transactions.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
SCHOOLS TRANSACTIONS AND RECONCILIATIONS	In previous years we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves required significant improvement. We identified a risk of material misstatement in the 2015/16 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions have not been addressed.	We encountered significant difficulties in auditing schools balances as there is insufficient reconciliation between the balances in the general ledger and the returns received from schools. We have tried to reconcile the amounts and have identified potential misstatement in the accounts.	Our audit of schools reserves found that £2.099 million was erroneously included in the specific grant reserve within the earmarked reserves note. Management has agreed to reclassify this amount in the revised financial statements. This amendment will increase schools reserves to £7.858 million. The revised balance comprises £5.424 million reserves held by schools and £2.434 million held centrally. Our comparison of schools balances in the accounts to information on schools returns identified the following differences: • £4.826 million lower expenditure in the accounts • £2.910 million lower income in the accounts • £197,000 lower debtors in the accounts • £571,000 lower creditors in the accounts • £1.225 million lower bank balances in the accounts This nets to a difference of £2.767 million. The Council is unable to provide a comprehensive explanation for this difference. However, the schools reserves position has been sufficiently reconciled therefore it appears that the income and expenditure differences may be due to misclassifications and transactions being coded to non-school accounts rather than incomplete posting. We have recorded as an unadjusted misstatement in Appendix II *(audit difference number 3)* and we have assumed that the balancing item of £2.767 million is a further understatement of income (worst case scenario).

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
LENDER OPTION BORROWER OPTION (“LOBO”) LOANS	A number of councils which hold LOBO loans have received objections as to the lawfulness of the decision to take this form of borrowing. While no objection has been received in relation to LOBO loans held by Slough Borough Council, the National Audit Office (NAO) has issued guidance to auditors of local authorities that, where a local authority has material LOBOs, the auditor should complete sufficient work around the lawfulness of the decision to enter into the LOBO agreements. The Council has £13 million of LOBO borrowing, which was taken out in 2002/03 and 2005/06.	We requested documentation regarding the Council’s LOBOs from the finance team. We have reviewed available documentation to establish the conditions under which the LOBO borrowing was taken. We will need to determine, with appropriate legal and technical advice if necessary, whether the decision to take out these loans was unlawful.	This is a national issue that came to light from the significant number of objections received by auditors this year. Technical consultation internally within BDO and externally (through the NAO’s local government technical forum) is underway at the time of drafting this report. From the information that we have reviewed to date, the LOBOs have been correctly treated as variable loans in assessing the Council’s performance against its prudential borrowing indicators in the last four years, and the indicators have not been breached in these years. There is insufficient information available to determine whether this was also the case in the years when the LOBOs were taken out. However, if it were determined that the LOBOs were unlawful at the time that they were taken out, it is considered unlikely that any restitution would result in a material additional liability for the Council (in excess of the £13 million principal liability already in the accounts). We are awaiting further technical guidance on this issue before we can conclude. We will provide a verbal update to members at the Audit and Corporate Governance Committee meeting on 29 September 2016.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: **Normal risk** **Other issue**

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
FRAUD AND ERROR	We are not aware of any instances of fraud other than housing benefit and housing tenancy fraud committed against the Council. Our audit procedures have not identified any material errors due to fraud.	No issues.
CLASSIFICATION OF SURPLUS ASSETS	Out physical verification of a sample of surplus assets identified two properties that are commercially operational. As these assets are held for their capital appreciation or to earn rentals, rather than the supply of goods or services or administration purposes, these properties should be reclassified from surplus assets to investment properties. We extended our sample and identified one further surplus asset (land) which was recently developed and therefore needs to be reclassified to investment property. The total value of assets that have been incorrectly classified as surplus assets rather than investment properties in our sample testing is £1.398 million, and the extrapolated error over the total surplus assets balance is £3.097 million. We have extrapolated the errors for the reclassification required for revaluation gains (from other comprehensive income to financing income) and rental income (from net cost of services income to financing income) and these are both trivial.	Management has agreed to adjust for the £1.398 million known errors in the revised financial statements and we have reported the remaining projected error as an unadjusted misstatement of £1.699 million in Appendix II *(misstatement number 4)*.
	In addition, our physical verification of other land and buildings identified a property that was non-operational. As this asset meets the definition of a surplus asset, it is incorrectly classified within the property, plant and equipment note. On further investigation we found a number of other non-operational properties that were also misclassified. The total carrying value of assets that should be reclassified from other land and buildings to surplus assets within the property, plant and equipment note is £7.452 million. It is important that surplus assets are correctly classified as their valuation on a fair value 'highest and best use' basis under IFRS 13 could be quite different to current value.	Management has also agreed to reclassify the £7.452 million non-operational assets in the revised financial statements.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
CLASSIFICATION OF INVESTMENT PROPERTIES	We selected a sample of investment properties from the fixed asset register to check the classification by agreeing to rental income received or valuation certificate where assets are held for capital appreciation. We identified two properties with a combined carrying value of £2.747 million that are not held for the purpose of earning rental income or for capital appreciation. As these assets do not meet the definition of investment properties and are non-operational, they should be reclassified from investment properties to surplus assets. We carried out extended testing and our additional sample did not identify any further misclassifications. The extrapolated error over the total investment properties balance is £4.564 million. We have extrapolated the errors for the reclassification required for revaluation gains (from financing income to other comprehensive income) and rental income (from financing income to net cost of services income) and these are both trivial.	Management has agreed to adjust for the known error of £2.747 million in the revised financial statements and we have reported the remaining projected error of £1.817 million in Appendix II *(misstatement number 5)*.
OWNERSHIP OF PROPERTY, PLANT AND EQUIPMENT AND DISPOSALS	We tested a sample of non-current assets back to the land registry and other evidence of ownership and we tested a sample of disposals to supporting documentation. Our testing identified the following issues: • Incorrect inclusion in PPE of a property that was disposed of in January 2015. We extended our sample testing and identified a further property which was also disposed of prior to 2015/16. The two properties were on the same street and part of the Britwell Regeneration. Management has provided us with a list of all assets disposed of at this time as part of the scheme, which are still in the fixed asset register for PPE. The closing net book value of these 19 assets is £1.549 million. • For one of these properties, we also identified the land was classified within the investment properties asset register at a value of £326,000. We scrutinised the fixed asset register to identify any asset numbers duplicated in both registers. One additional error was identified in respect of an investment property where the land element was duplicated in other land and buildings, however the value of this balance is trivial. • Incorrect inclusion of two surplus assets whereby the Council has surrendered the lease back to the leaseholder, with a total net book value of £1.296 million. Management informed us that a review was performed by the property management team during the year on surplus assets however these two assets were not identified as errors. We therefore extended our testing to all surplus assets to agree the rights and obligations of the asset back to land registry documents. In total, the Council does not own seven out of 26 of the surplus properties, with a net carrying value of £4.054 million. Although these errors were corrected in the 2015/16 financial statements rather than 2014/15, we have not recorded an unadjusted error for the in year depreciation charge as this is below our triviality threshold.	Management has agreed to adjust for these errors in the revised financial statements. These were also errors in the prior year but no prior period adjustment is required as the amounts are not material. We have not recorded an unadjusted error for the impact on depreciation of correcting these errors in the current year rather than the prior year, as it is below our triviality threshold.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
DE-RECOGNITION OF REPLACED HRA COMPONENTS	Each year the Council incurs capital expenditure on the refurbishment of its housing stock. In 2015/16 this balance was £9.235 million. When capital expenditure replaces existing items, the replaced components should be derecognised from property, plant and equipment. Our audit found that the Council did not recognise a disposal for these replaced components, which had a closing net book value of £9.135 million after taking account of in year depreciation.	Management has agreed to account for the disposal in the revised financial statements, thereby reducing the net book value of council dwellings and recognising a corresponding loss on derecognition in the CIES. This adjustment will not impact on the general fund balance as the charge will be reversed to the Capital Adjustment Account through the Movement in Reserves Statement.
DEBTORS AND CREDITORS CLASSIFICATION	As part of our audit we checked whether balances are correctly mapped and classified within the debtors and creditors notes. Our audit identified a number of issues with the classification of debtors and creditors, which management has agreed to amend in the revised financial statements as follows: • To reduce creditors with central government by £1.470 million, increase creditors with other entities by £7.004 million, reduce debtors with central government by £7.414 million and increase debtors with other entities by £1.880 million, so that the year end balances reconcile to the collection fund working papers and corresponding balances • To reallocate £4.218 million long term debtor from balances with central government to other entities (as reported in the financial statements preparation significant risk section above in respect of a loan to Slough Children's Services Trust) • To reduce creditors with central government by £6.263 million as this is a reconciling item of the bank statement (as reported in the financial statements preparation significant risk section above in respect of cash and bank analyses) • To reduce both debtors and creditors with central government bodies by £6.790 million for amounts relating to preceptors' balances dating back to 2013/14 which have not been correctly reversed out of the closing balances We identified a £4.6 million council tax debtors balance for which we are awaiting supporting documentation or confirmation that this balance needs adjusting out of the year-end closing balance.	Management has agreed to adjust for these errors in the revised financial statements.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
CREDITOR ACCRUALS	The Council collects and pays over water charges to Thames Water in respect HRA properties and records the transactions as income and expenditure in the financial statements. Net income (after paying Thames Water) amounting to £160,000 has been accounted for as a creditor this year because the Council believes that this may be repayable to HRA tenants. Our testing identified that it is not certain that this amount will have to be repaid therefore it should be recorded as income and a contingent liability disclosure could be included in the financial statements to recognise that an amount in respect of this issue could be repayable in the future.	Management has agreed to amend this in the revised financial statements, by increasing income and reducing creditors by £160,000, with a corresponding increase in earmarked reserves.
BETTER CARE FUND INCOME	As part of our sample testing of fees and charges income, we selected a balance of £4.383 million relating to notional better care fund income. The Council has recognised NHS Slough CCG's total contribution to the better care fund as income and expenditure includes amounts paid by the CCG directly to its providers. The Council should not account for the transactions that the CCG incurs with its providers where the CCG holds the risks and rewards of the contracts.	Management has agreed to amend this in the revised financial statements, by reducing both income and expenditure by £4.383 million.
CONTINUING HEALTHCARE INCOME	Within our sample testing of adult social care income, we identified an accrued balance of £500,000 for continuing healthcare income that the Council is claiming from NHS Slough CCG. We have been provided with a list of claimants and the Council's estimate of the percentage likelihood of the claims being successful. The Council has confirmed that none of these cases have been settled between the year end and the date of the audit. We consider it premature to recognise these ongoing claims as income and that recognition as a contingent asset would be more appropriate.	We have reported an overstatement of adult social care income and debtors (with other entities as it is incorrectly classified as other rather than NHS bodies in the debtors note) of £500,000 in Appendix II *(misstatement number 6)*.
NON DOMESTIC RATES INCOME	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: • Incorrect calculation of non domestic rates income, which was understated by £525,000 • Incorrect inclusion of £1.1 million of section 31 grants which should be classified as non-ringfenced government grants.	Management has agreed to reduce non domestic rates income by £525,000, with a corresponding adjustment to the Collection Fund Adjustment Account reserve balance, and to transfer the £1.1 million to income from non-ringfenced government grants in the revised financial statements.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
COUNCIL TAX INCOME	Our audit of council tax income in the taxation and non specific grants note found that the income was overstated by £876,000.	Management has agreed to increase council tax income by £525,000, with a corresponding adjustment to the Collection Fund Adjustment Account reserve balance, in the revised financial statements.
NON-RINGFENCED REVENUE GRANTS	Our audit of non-ringfenced revenue grants in the taxation and non specific grants note identified the following: • Incorrect classification of the section 31 grant within non domestic rates income, as reported above. The grant is also understated by £358,000 as the balance does not reconcile to the NNDR3 form. • Incorrect inclusion of an amount of £487,000 which relates to a contingency fund for Slough Urban Renewal LLP rather than a grant.	Management has agreed to adjust both the £358,000 and the £487,000 errors in the revised financial statements, with corresponding movements through reserves.
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 £6.475 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 £270,000.	This misclassification of expenditure in the CIES is recorded as an uncorrected misstatement in Appendix II. We have reported the £270,000 misclassification of expenditure in Appendix II (misstatement number 7).

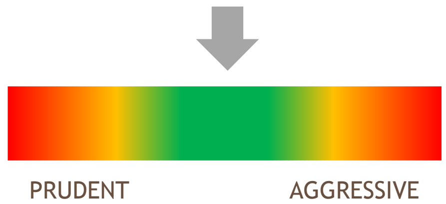
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
NON-CURRENT ASSET VALUATIONS Local authorities are required to ensure that the carrying value of their non-current assets is not materially different to their current value (property, plant and equipment excluding surplus assets) or fair value (investment properties and surplus assets) at the Balance Sheet date. The valuation for council dwellings and land and buildings included in property, plant and equipment (PPE) is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external valuer to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices). The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a ‘highest and best use’ valuation.	The Council engaged an external valuer to value its council dwellings, specialised assets, surplus assets and investment properties as at 1 January 2016 and carry out a year end desk top valuation for the movement in property prices to 31 March 2016. This resulted in a net upwards revaluation movement of £89.600 million in the year for PPE and a gain of £6.002 million for investment properties in the draft financial statements. We assessed the valuer’s competence, independence and objectivity and determined we could rely on the management expert. We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements. We also compared the valuations to expected movements using available market information and concluded that the movements are within expectations. Our audit identified the following misstatements and omissions in the PPE and investment properties notes, which management has agreed to amend in the revised financial statements: • Inclusion of the IFRS 13 hierarchy levels for surplus assets and investment properties • Corrections to the disclosed revaluation date and the revaluation programme table.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

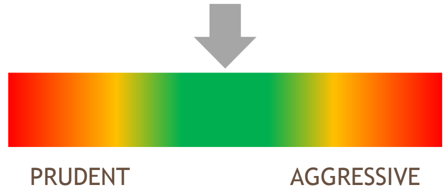
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
NON CURRENT ASSET VALUATIONS (continued) As above.	**Valuation of council dwellings** We performed a sample test of valuation movements back to the valuer’s certificates and identified trivial transposition errors totalling £18,000 relating to two assets. As a result of these errors we extended our testing to compare the revaluations in total for council dwellings to the valuer’s certificate. We found that council dwellings are understated by a total of £3.469 million as a result of input errors from the valuation certificates. When combined with a further understatement of indexation for the last quarter of the year as a result of this error, the total estimated error in an understatement of council dwellings of £3.469 million, with a corresponding estimated understatement of the revaluation reserve of £3.194 million and an understatement of the revaluation gain in the CIES of £275,000. Correcting this misstatement in the accounts would involve a large exercise to update all council dwellings in the fixed asset register. As the amount is not material, we have reported the error as an unadjusted misstatement in Appendix II *(misstatement number 8)*. The year-end desktop valuation by the valuer indicated that housing prices increased by 3.5% in the three months to 31 March 2016 and the Council has applied indexation of this value. We are satisfied that this increase is in line with regional movements. **Valuation of specialised assets valued on a DRC basis (including schools)** We performed a sample test of valuation movements back the valuer’s certificates and no issues were identified. However, due to the valuation input errors identified in our testing of other asset categories, we extended our testing to cover the full population of other land and buildings revalued. We identified no non-trivial errors in revaluation movements. The year-end desktop valuation by the valuer noted that movements in the three months to 31 March 2016 were within valuation tolerance parameters and so no indexation was applied. We are satisfied that this movement in not material.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
NON CURRENT ASSET VALUATIONS (continued) As above.	**Surplus assets (IFRS 13 fair value measurement)** Our sample testing of revaluation movements identified one asset whereby the revaluation movement as per the valuer's certificate was £117,000 however due to an input error, this was only recorded as £17,000 in the fixed assets register so the gross carrying value is understated by £100,000. As a result of this error we extended our testing to cover the full population of surplus assets and we identified one further input error. Overall, the carrying value of surplus assets at year end is understated by a net £95,000 as a result of this issue, with a corresponding understatement of the revaluation reserve. Management has agreed to amend this error in the revised financial statements, together with the other revaluation corrections reported below. **Investment properties (IFRS 13 fair value measurements)** We performed a sample test of valuation movements back to the valuer's certificates and identified one variance whereby the revaluation increase in the fixed asset register is overstated by £220,000 due to an input error. As a result of this error, we extended our testing to cover the full population of investment properties. We identified a number of additional input errors, including two properties that had been revalued but for which no revaluation movement was accounted for. Overall, the carrying value of investment properties at year end is understated by a net £2.238 million, with a corresponding understatement of the gain from fair value adjustments in the CIES. Management has agreed to amend this error in the revised financial statements. There is no impact on the general fund balance as the gain from fair value adjustments is reversed to the Capital Adjustment Account in the Movement in Reserves Statement. **Assets held for sale** Land was reclassified from other land and buildings in March 2016 when it met the criteria under IFRS 5 *Assets held for sale* and was subsequently revalued at fair value less costs to sell. No issues identified with the value of this asset.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

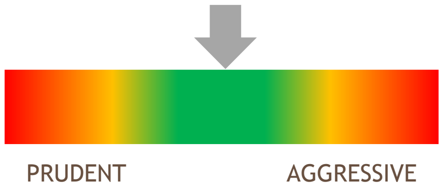
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS The pension liability comprises the Council’s share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability 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 compared the disclosures in the defined benefits pensions note to the actuary reports and supporting calculations. Some differences were identified and these are reported in the disclosures section below (they do not impact on the net pensions liability). The National Audit Office 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 noted a disclosure misstatement in respect of the sensitivity analysis for salary movements, which we have reported in the disclosures section below (this does not impact on the net pensions liability).	As at 31 March 2016 net pension liabilities disclosed in the balance sheet decreased by £16.373 million (to £209.341 million). This comprised a decrease in the liabilities of £22.514 million (to £402.972 million) and a decrease in assets of £6.141 million (to £193.631 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 2016 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 per the actuary’s report relate to: • reduction in the pension increase from 2.5% to 2.4% • reduction in the salary increase rate from 4.3% to 4.2% • increase in the discount rate from 3.4% to 3.7% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). The increase in the discount rate has resulted in a significant decrease in the present value of the scheme liabilities at 31 March 2016. 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. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.



KEY AUDIT AND ACCOUNTING MATTERS

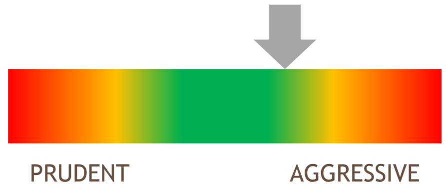
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates. The Council estimates the housing benefits overpayments impairment allowance using collection rate data. For council tax debtors, the impairment allowances are based on the collection of income using information available over the last 15 years. An allowance is made for outstanding debt based on the difference between income received and the average income expected to be received. For business rate debtors, the impairment allowance is based on a five year collection cycle with an average provision rate applied. We have reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.	Overall we have concluded that the impairment allowances for receivables are reasonable. **Housing benefit overpayments** The impairment allowance at 31 March 2016 is £7.345 million, an increase of £1.055 million from the prior year, against an overpayments balance of £10.358 million. We are satisfied that the impairment calculation is based on actual collection rates in recent years and is reasonable. **Council tax arrears** The total impairment allowance for the Collection Fund at 31 March 2016 is £6.214 million, a decrease of £880,000 from the prior year, against total arrears of £11.935 million. The Council has a 84% share in these balances. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable. **Business rates arrears** The total impairment allowance for the Collection Fund at 31 March 2016 is £2.348 million, a decrease of £714,000 from the prior year, against total arrears of £4.401 million. The Council has a 49% share in these balances. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
NON DOMESTIC RATES APPEALS PROVISION Since the introduction of the Business Rate Retention scheme effective from 1 April 2013, local authorities are liable for the successful appeals against non domestic rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. We have reviewed the reasonableness of the assumptions applied and compared this to information available for recent appeals.	The provision as at 31 March 2016 is £1.239 million, a decrease of £1.249 million from the prior year, and the Council's share of this balance of £607,000. The Valuation Office rating list of appeals and the analysis of successful appeals to date is used when calculating the estimate of total provision at year end. We are satisfied that the calculation of the provision in the working papers provided for audit is reasonable. However, we identified the following issues in the financial statements: • The movements disclosed in the provisions note for the Council's share of the provision (increase in provision during the year and utilised during the year) are taken directly from the billing authority model rather than apportioning for the Council's 49% share of this balance. The net decrease in the provision is overstated and the provision understated by £312,000. • The Council's calculation of the Collection Fund provision in the draft financial statements did not agree to the supporting working papers, which suggests that the balance is understated by £1.573 million. The impact on the Council's provision is a further understatement of £771,000. The total understatement of the Council's share of the provision is £1.083 million, which we have reported as an unadjusted misstatement in Appendix II *(misstatement number 9)*.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
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 amend the financial statements for the following presentational and disclosure misstatements (we have not repeated issues identified above): • Amend accounting policies to explain that where there are capital additions in a year, depreciation on the relevant assets only commences at the start of the following year if the in-year depreciation would not be material in the year of acquisition • Inclusion of a Cash Flow Statement which was inadvertently excluded in the draft statements • Amendments to the Cash Flow Statement notes for £1.533 million balance incorrectly included in the purchase of PPE line • Amendments to the assumptions made about funding and other sources of estimation uncertainty note to reconcile the values stated to elsewhere in the accounts • Correction to the range of useful economic lives of vehicles, plant and equipment from 5 years to 5 – 20 years • Disclosure movements in the net book value of PFI assets during the year within the PPE note • Correction to the revaluation reserve note as the Code requires upward and downward revaluation movements to be separately disclosed • Minor adjustments to the HRA statement so that it reconciles to the CIES • Amendments to the defined pension scheme note to correct the movement in assets and liabilities, in line with the information provided by the actuary (no impact on overall net liability balance) • Amendments to the defined pension scheme note to include the financial assumptions and allocation of pension scheme assets as per the actuarial reports • Amendments to the analysis of future minimum lease payments for finance leases (Council as lessee) and operating leases (Council as lessee) • Amendments to the accounting standards issues not yet adopted note

KEY AUDIT AND ACCOUNTING MATTERS
Continued

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTS DISCLOSURE (Continued)	• Amendments to the related parties note to include the payments made the Berkshire Pension Fund, update to the pooled budgets disclosures and remove the disclosures relating Thames Valley Athletics Centre as it does not meet the definition of a related party under IAS 24 • Minor amendments to the disclosures in the local asset backed vehicles note • Inclusion of a contingent liability for the contract of resale arrangements with Thames Water • Inclusion of a post balance sheet events note following the majority vote to end the UK's membership of the European Union (EU) in the National Referendum held on 23 June 2016 and the heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK, including the potential impact on the pension fund liability • Amendments to the council tax precepts and demands note in the note to the Collection Fund to reconcile to balances elsewhere in the financial statements • Amendment to the non domestic rates rateable value as at 31 March 2016 to reconcile to the relevant Valuation Office Agency report received • Amendment to numerous casting differences and internal inconsistencies between notes.
IMMATERIAL DISCLOSURES	The financial statements include a number of notes that are not material, such as intangible assets, inventories and provisions. These should be removed as they could distract the users of the accounts from the material information in the financial statements.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 25 February 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 25 February 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	As reported, we are in the process of reviewing the legality of the Council's LOBOs which could impact on its liabilities. We have no other matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

OUTSTANDING MATTERS

We in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2016, and based on the work completed to date we anticipate issuing an unqualified opinion on the financial statements.

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 at which this report is considered:

1	Clearance of outstanding issues on the audit queries tracker currently with management. In particular, this includes: • Documentation for 20 items in our pre and post year-end receipts sample • Employment contracts for 14 teachers on the Council’s payroll • Documentation supporting two transactions in our fees and charges income sample • Documentation supporting three exit packages • Grant agreements for 3 items in our grants income sample • Agreement for one finance lease • Supporting evidence for one PPE addition and one REFCUS transaction • Outstanding queries on cash and debtors
2	Re-performance of a sample of testing on benefits expenditure that is being completed by a benefits expert commissioned by the Council
3	Receipt of bank confirmations for all schools
4	Audit work on the Council’s LOBO borrowings
5	Review and agreement of the final WGA data collection tool
6	Review of all audit work and technical clearance
7	Review of the revised Statement of Accounts
8	Subsequent events review
9	Management representation letter (draft at Appendix VII)

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2016. As part of our planning for the audit, we agreed a detailed document request which outlined the information we would require to complete the audit.	As reported in the financial statements preparation significant risk section above, there has been limited improvement in the quality and availability of working papers compared to the prior year, particularly in the following areas: • Reconciliations of schools balances and transactions • Analyses of the cash and cash equivalent balance and supporting bank reconciliations for all balances • Debtors and creditors mapping • Working papers to explain all manual adjustments posted between the trial balance and the financial statements A recommendation for improvement is recorded in Appendix III.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required 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 Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements. However, we have recommended to management that the following disclosures be included in order to fully comply with "Delivering Good Governance in Local Government" (CIPFA/SOLACE): • A statement that the Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively • A statement to explain what specifically the governance framework comprises of and that the system of internal control is a significant part of the governance framework • A statement that the Council has a duty under the Local Government Act 1999 • A statement that a copy of the Council's code is on its website • Inclusion of issues identified by Internal Audit in 2015/16 and how they shall be addressed in 2016/17. Management has agreed to revise the Annual Governance Statement in the revised Statement of Accounts.
3	We are required to read all the financial and non-financial information in the Narrative Report 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.	Our review of the Narrative Report has identified inconsistencies with the financial statements in respect of the following disclosures: • Increase in PPE in the year and capital expenditure • Collection Fund surplus/deficit • Revenue support grant income in 2014/15 • Total investments at year end and Investment income. Management has agreed to revise the Narrative Report in the revised Statement of Accounts.

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 Council's 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 controls 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 controls.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
AUDIT WORKING PAPERS	The majority of the electronic working papers were provided two weeks after the start of the onsite audit visit. Further working papers were provided during the course of the audit. There is still significant scope for improvement of the quality and timely availability of working papers.	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 2015/16 audit to identify the areas where further improvement needs to be made in producing effective working papers.	
ACCOUNTS PRODUCTION	A number of the issues identified in the 2015/16 audit are reoccurring issues from prior year audits.	Resolving reoccurring issues lengthens the audit process.	Management should thoroughly review the draft financial statements and supporting working to ensure that previously reported errors are not repeated. Immaterial and irrelevant disclosures should be excluded.	
DEBTOR NOTIFICATIONS	We vouched a sample of fees and charges transactions back to debtor notification forms, however a number of these could not be located by Avarto.	Insufficient documentation to support transactions within the financial statements could result in material undetected errors.	The Council and its shared services should maintain all supporting documentation for seven years to comply with its internal policies for retention of data.	
MAPPING OF DEBTORS AND CREDITORS	Management was unable to provide us with a working paper that clearly mapped debtor and creditor balances to the disclosures in the financial statements and we identified a number of misclassifications.	Incorrect working papers to support the mapping of balances within the financial statements could result in material errors.	Management should produce a working papers that maps all debtor and creditor balances into the appropriate classifications and reallocates any debtors in credit and creditors in debit balances.	

CONTROL ENVIRONMENT

Significant deficiencies Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
BANK RECONCILIATIONS	The Council was initially unable to provide us with a breakdown of the reconciling items within the bank reconciliations. There were a large number of reconciling items that had not been correctly allocated by the year-end.	A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences. The cash balance could be materially misstated if reconciling items are not appropriate timing differences.	Management should review processes for preparing bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the monthly bank reconciliations.	
SCHOOLS TRANSACTIONS	The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) require significant improvement. Our review of the working papers for 2015/16 found that there is insufficient reconciliation between schools transactions posted to the general ledger and the returns received from schools.	In the absence of effective controls for reconciling schools balances, there is a significant risk of material misstatement in the accounts.	Management should ensure that schools' transactions posted to the general ledger are reconciled to underlying schools returns. Management should complete a review of the consolidation of schools transactions into the accounts as part of the accounts closedown process.	
PROPERTY MANAGEMENT	Our audit identified a number of properties which had been either disposed of or incorrectly classified in the fixed asset register.	Incorrect balances with the fixed asset register could result in a material misstatement in the financial statements.	Management should engage with the property management team to perform an annual review of assets to identify: • Any assets which are no longer held by the Council (these should be derecognised) • Any assets that have changed use (these should be reclassified).	

CONTROL ENVIRONMENT
Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
CAPITAL ADDITIONS	Internal Audit tested seven acquisitions in the year. In two instances where completion memos had been circulated to Asset Management and Finance, the acquisitions had not been actioned on the asset register. In four instances evidence could not be obtained of completion memo being circulated and no updates had been made to the asset register either.	There is a risk that capital additions and therefore the closing net book value of non-current assets could be materially misstated.	Management should review the controls around the documentation and review of completion memos.	
HB QUALITY CHECKS	Internal Audit identified that due to resource constraints, there was a significant backlog of quality control checks by independent housing benefit reviewers.	There is a risk that the Council may be making overpayments to claimants which are not recoverable receipts in the DWP housing benefit subsidy claim.	Management should ensure that it meets its targets set for reviewing housing benefit claims.	
HRA NEW TENANCIES	Internal Audit identified three HRA tenancy agreements which were not signed by the Council, one of which resulted in a shortfall of rental income of £1.56 per week.	There is a risk that rental income could be materially misstated if Arvarto is not provided with the correct agreements to initiate the receipts on the system.	Management should ensure that signed tenancy agreements are obtained for all new tenancies.	
COUNCIL TAX PARAMETERS	Internal Audit identified that there was no evidence of review of the uploading of council tax parameters by the Head of Revenues prior to the start of the financial year.	There is a risk that the council tax parameters could be erroneously input into the system, thereby misstating the income receivable.	Management should ensure that a review of the council tax parameters is evidenced.	
NDR VOA RECONCILIATIONS	Internal Audit identified that there was no independent review of the VOA reconciliations in October 2015.	There is a risk that the rateable value of properties on the system is misstated, which will misstate the income receivable.	Management should ensure that the review of NDR VOA reconciliations is evidenced.	

CONTROL ENVIRONMENT

Other deficiencies and observations Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
TIMELY PAYMENT OF INVOICES	Internal Audit identified that a number of invoices were not being paid on a timely basis in accordance with the Better Payments Practice Code. This was due to invoices being received initially by the Council and not being passed promptly onto Arvarto, which delayed the payment of these invoices.	Late payment of invoices could damage the reputation of the Council with suppliers, and will increase creditors balances as at the year-end.	Management should ensure that all invoices received by the Council are promptly passed to Arvarto, or recommend to suppliers that invoices are issued directly to Arvarto and subsequently scanned and uploaded onto the Agresso system.	
DATA MIGRATION SUSPENSE ACCOUNTS	We reviewed the trial balance and identified the following uncleared data migration suspense account balances: - £4.180 million AP suspense - £5.625 million AR suspense - £582,000 P&L suspense - £525,000 bank suspense - £230,000 balance sheet suspense	Holding significant balances within suspense accounts could lead to a material misstatement in the financial statements.	Management should clear down the remaining balances within the data migration suspense accounts.	

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return 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 DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	HM Treasury's WGA team issued a newsletter at the end of June to explain the delay in issuing the DCT which was released on Monday 4 July. This means that local authorities' deadline to submit the unaudited DCT to HM Treasury was extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016. Our review of the Council's WGA Data Collection Tool (DCT) will be carried out when we have completed the audit of the financial statements and a revised DCT has been provided to us.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

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 reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 planning report issued on 25 February 2016. We have since undertaken 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 have not included any additional significant risks. We report below our findings of the work designed to address the significant risks and any other relevant use of resources work undertaken.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance**	Our planning identified a risk regarding the challenging level of savings in the Council's financial plans. As a starting point for assessing the Council's financial sustainability, we have considered the Council's budget setting and budget monitoring arrangements, and the effectiveness of those arrangements by assessing financial performance to date and monitoring the delivery of budgeted savings in 2015/16. **General Fund** Internal Audit's conclusion on the 2015/16 budget setting and savings plan development process was rated 'Green' (meaning that the Council can take substantial assurance that controls are suitably designed, consistently applied and operating effectively). Internal Audit's conclusion on budgetary control and financial reporting in 2015/16 was rated 'Amber/Green' (meaning that the Council can take reasonable assurance that the controls in place are suitably designed and consistently applied). They identified a few medium and low priority issues that needed to be addressed in order to ensure that the control framework is effective. Overall the Council achieved its budget plans for 2015/16 and reported an underspend of £39,000 against its revised budget for the year. The Council achieved 71% of its £9.79 million savings target for the year.	We are satisfied that the Council has adequate arrangements in place for budget setting and budget monitoring. The Council has a track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance** **(continued)**	There was an overspend of £2.7 million in the children's and families service for the first half of the year before services were transferred to the Slough Children's Services Trust, due to increasing activity demand and high agency staff costs. The adult social care service incurred an overspend of £0.6 million, as it under-delivered on its budgeted savings under a challenging transformation programme. However, the Council managed these pressures during the year by one-off gains and driving out savings from other areas. The general fund balance as at 31 March 2016 per the draft financial statements is £8.102 million, which is a decrease of £41,000 from the previous year. Earmarked reserves per the draft financial statements have decreased by £2.915 million, to £15.921 million, to resource planned projects in accordance with the Council's priorities. These reserves includes £7.858 million of schools balances.	The general fund balance and earmarked reserves act as a potential buffer against future risks, although the amount of headroom provided in fairly limited.
	Housing Revenue Account (HRA) The movement in the Housing Revenue Account (HRA) in 2015/16 was an increase of £4.504 million, resulting in an HRA balance of £28.998 million at 31 March 2016. This was higher than budget due to lower costs on borrowing, housing repairs and bad debt allowances, along with additional income from dwelling rents and chargeable works. The balance on the major repairs reserve was £12.107 million at 31 March 2016, an increase of £820,000 from the prior year.	There are reasonable levels of HRA reserves to support the sustainability of the 30 year HRA Business Plan.
	Collection Fund The council tax balance in the Collection Fund was in surplus by £422,000 million at 31 March 2016, of which the Council's share was £355,000. The Council reported a collection rate of 96.52% for the year, which was higher than prior year performance of 96%. The Council collected around £100 million of non domestic rates during the year. Under the business rates retention scheme the Council retains 49% of this, after deducting the £18.4 million for tariff payment and levy payable to the Government and the Council's share of £1.2 million provision for non domestic rate appeals. The collection rate for the year was 97.12%, which was above prior year performance of 96.8%. A surplus of £628,000 was achieved on the non domestic rates Collection Fund for the year. However, the overall non domestic rates balance at 31 March 2016 is still in deficit by £723,000 due to charges for appeals against business rate valuations.	The overall Collection Fund is in deficit by £301,000 at 31 March 2016, which is an improvement on the prior year deficit balance of £2.094 million. Collection rates on both council tax and non domestic rates have improved compared to the prior year. We are satisfied that the Collection Fund is being adequately monitored and managed.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance** **(continued)**	**Capital** The Council spent £45 million against its £77 million capital programme in 2015/16 (capital investment and revenue costs associated with capital assets). The majority of the unspent balance has been re-profiled into future years. The expenditure was funded from a combination of capital receipts, grants and contributions and internal balances. Expenditure in the year included the purchase of new assets for investment purposes, which management expects will generate future revenue streams to offset future borrowing costs.	We are satisfied that the Council's capital programme and supporting business cases have taken a long term view about the viability of the investment, with a strategy aimed at using capital to generate additional revenue streams and thereby contribute to required savings targets.
SUSTAINABLE FINANCES: **Medium term**	The Medium Term Financial Strategy (MTFS) update approved by Cabinet in February 2016, covering the four year period from 2016/17 to 2019/20, identified a savings requirement of £36.94 million over the period, with unidentified savings of £4.6 million in 2017/18, £0.4 million in 2018/19 and £0.2 million in 2019/20. The latest refresh of the MTFS presented to Cabinet in July 2016 has updated the financial planning assumptions for the four years ahead, from 2017/18 to 2020/21. This indicates a savings requirement of £38.03 over the period. Our planning identified a risk that the remaining savings required over the medium term will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. We have reviewed the MTFS assumptions and assessed the reasonableness of the cost pressures, amount of Government grant reductions applied and plans to reduce services costs and increase income to close the budget gap. The MTFS adequately defines and records the headline assumptions made in the budget about the future funding of the Council, directorate pressures, the revenue impact of capital investment and savings targets. It shows how the Council plans to balance its finances over the medium term by delivering savings alongside projected growth in income from council tax and business rates. It 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.	We are satisfied that the MTFS reflects known savings and cost pressures and that the Council understands the risks involved across its financial planning assumptions. The key assumptions are not unreasonable, although the 3.75% assumed rise in council tax in 2017/18 is high and will need to be formally approved by Council in setting the 2017/18 budget, and achieving the required savings target will be very challenging.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **Medium term** **(continued)**	The Council set a balanced budget for 2016/17 in February 2016. The savings target for the year is £10.13 million and specific schemes have been identified for the full savings requirement, although in July 2016 management reported that there is 'Amber' risk associated with 41% of these schemes (the other 50% have been assigned 'Green' status). Over the medium term, the Council expects its revenue support grant to reduce from £24.01 million in 2015/16 to £6.12 million in 2020/21. It has assumed a council tax increase of 3.75% in 2017/18 (the same level of increase as approved and applied in 2016/17) and then a 1% increase each year for the remaining period. The MTFS recognises the volatility in business rate income and has assumed a 2.5 to 3% increase in 2016/17 and then a 1% growth rate in each of the following years of the MTFS. To help identify savings for the MTFS, the Council commenced an outcomes based budgeting exercise in 2015/16. To begin this process, the Council's existing budget was mapped to its Five Year Strategic Plan outcomes and lead officers were required to provide options about the outcomes that can be delivered at 65% of the current cost. A range of measures were 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 reasonable arrangements for identifying required savings. However, given the scale of the remaining savings challenge, this will continue to require strong leadership and action by the Council.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
CHILDREN'S SOCIAL CARE SERVICES	Our value for money conclusions in the last two years were qualified because of significant weaknesses in children's social care services identified by Ofsted in their inspections in 2011 and 2013, as the Council was unable to provide sufficient evidence of improvement in relation to Ofsted's recommendations. At the direction of the Secretary of State, responsibility for the majority of children's services transferred to Slough Children's Services Trust ('the Trust'), a company limited by guarantee, on 1 October 2015. Our planning identified 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 2015/16, when it retained direct control over these services in the first half of the year and in managing the contract with the independent organisation in the second half of the year. We have gained an understanding of action taken by the Council and the Slough Children's Services Trust during 2015/16 to address Ofsted's recommendations and seek evidence of improved processes. **April to September 2015** In early 2015/16 the Council commissioned two assurance activities in respect of its children's services: an audit covering the effectiveness and impact of the current Quality Assurance Framework, and an audit covering threshold decision making, children subject to child protection plans, domestic violence contacts and case supervision. The audits informed the development of a new Single Improvement Plan, which was reviewed by the Education and Children's Services Scrutiny Panel in July 2015. This drew together the key areas requiring focus in the short term from a number of separate and detailed improvement plans that were previously in place. The four key priority areas identified were recruitment and retention, quality assurance, quality of practice, and leadership and partnership. The plan was monitored by the Slough Improvement Steering Group, which was chaired by the Interim Director of Children's Services and included the Children's Commissioner for Slough and a representative from the Department for Education. A contract between the Council and the Trust for the delivery of children's social care services was agreed shortly before services transferred to the Trust on 1 October 2015. There were delays in finalising the contract as there were protracted discussions between the Council, the Trust and the Department for Education about the new structure and governance arrangements, including key performance indicators.	The Council improved some of its governance arrangements in respect of children's services in the first half of 2015/16. However, the lengthy discussions between the Council and the Trust served as a distraction and undermined the effectiveness of those arrangements.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
CHILDREN'S SOCIAL CARE SERVICES (continued)	**October 2015 to March 2016** In December 2015 Ofsted completed a further review of services for children in need of help and protection, children looked after and care leavers in Slough, and judged the services it reviewed as inadequate overall. In its report published in February 2016, Ofsted stated 'Leaders in Slough Borough Council have not achieved enough improvement since the Ofsted inspections in 2011 and 2013. Important areas of children's social care services are still inadequate and a considerable amount of work is required before services for children can be considered good." The Ofsted report highlights numerous weaknesses in the service. However it recognises that there have been some improvements since its previous inspections. Members agreed a significant financial injection to the service, which helped reduce social worker's caseloads, and newly qualified social workers are better supported. Helped by a baseline audit, the Trust is rightly prioritising workforce, performance management and management oversight of practice and some important areas of poor practice are being tackled. However, the report concludes that changes made by both the Council and the Trust have not been fast or far ranging enough to improve the experiences of children sufficiently. Improving services for children and young people is a key priority outcome within the Council's Five Year Plan and a number of the Council's key performance indicators within its balanced scorecard relate to children social care. However, the Council has not been able to assign a RAG (red, amber, green) status to these outcomes and indicators in its performance reporting. Whilst the performance indicators were agreed with the Trust as part of the contract discussions, the targets for the performance indicators were not agreed until after year end. The Council has also not received sufficient performance information to provide any assurance about the quality of services provided by the Trust to enable it to monitor performance under the contract. The Ofsted report recognised that much needs to be done to cement relationships between the Council and the Trust to secure an unwavering focus on improvement and that whilst the governance arrangements are now clear, there are important areas such as commissioning where partners have yet to resolve the detail. A detailed action plan to address Ofsted's recommendations was developed by the Trust and submitted to Ofsted.	Despite some improvement in children's social care services since Ofsted's 2011 and 2013 inspections, Ofsted has identified ongoing significant weaknesses in these services in 2015/16. In addition, there is insufficient assurance of any significant improvement in the service since Ofsted's 2015 inspection.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
CHILDREN'S SOCIAL CARE SERVICES (continued)	**Since April 2016** In 2016/17 there is some evidence of improved collaborative working between the Council and the Trust: • A new Pledge for children in Slough was developed and agreed by Cabinet and full Council in April 2016; this sets out commitment by the Council and the Trust to focus on the areas that looked after children in the borough consider to be important • A revised Corporate Parenting Strategy 2016-18 was developed and agreed by Cabinet in June 2016 • A joint action plan to deliver the Strategy and Pledge has been developed and was considered by the joint Corporate Parenting Panel in June 2016 • The majority of the performance indicator targets were agreed by the end of June 2016 targets and a scorecard with quantitative and qualitative measures for monitoring progress is now in place • Revised terms of reference for the Corporate Parenting Panel have been agreed However, the Council is still not receiving sufficient performance information from the Trust to enable it to monitor performance under the contract. The Council acknowledges that a strong working relationship with the Trust and other partners is key to improving services and outcomes for children in Slough. On 6 September 2016 the Department for Education issued ministerial agreement to revoke a Second Direction that required the majority of 'schedule two services' (mainly education related services and early years and children's centres provision) to also transfer to Slough Children's Services Trust. Management believes that the new Direction reflects increased Ministerial confidence in the improved working relationship between the Council and the Trust. This has in turn provided a new opportunity for both organisations to reconsider how services currently delivered by Cambridge Education can best be delivered to maximise benefits to schools, children and parents in Slough.	There is some evidence of improved collaborative working between the Council and the Trust since year end in developing a Pledge, Corporate Parenting Strategy, action plan and scorecard, with a refreshed Corporate Parenting Panel, which means that there is now a clearer path to improvement. The Department for Education's decision to revoke the Second Direction on the Council is also indicative of recent improved joint working between the Council and the Trust. Assurance arrangements still need further development to enable the Council to monitor performance against its contract with Slough Children's Services Trust.

USE OF RESOURCES

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
VALUE FOR MONEY PROFILE TOOL	The Audit Commission, and now Public Sector Audit Appointments Ltd (PSAA) , provides auditors with a Value for Money Profile Tool of comparative financial data for all local authorities. This is available at www.vfm.psaa.co.uk. We have reviewed the reports available with data populated in July 2016, which includes mainly 2014/15 outturn costs, comparing the Council with its nearest statistical neighbours. The report highlights that the Council's overall net spend per head in 2014/15 was in the highest third, as was the planned net spend per head for 2015/16. As a result, non-schools reserves as a percentage of net current expenditure are also relatively low. This is partly due to higher than average spend per head in the following service areas (using 2014/15 data): • Adult social care (highest 20%) – The service is facing increasing activity pressures, particularly on domiciliary care, and there is a major health and social care transformation programme in place and plans to achieve savings in the overall service • Council tax benefits and housing benefits administration (highest 10%) – Post year end Cabinet has agreed to adopt a risk based verification framework from October 2016 which should help to reduce costs going forward • Council tax collection (highest 5%) – The higher spend is commensurate with significant improvement in council tax collection rates in recent years • Housing services (highest third) – This is due to (a) High homelessness levels in the borough, although action taken by the Council in 2015/16 has resulted in a 5% improvement in homelessness prevention numbers. (b) High management costs per dwelling; we are aware that management is currently building a business case for two wholly owned subsidiary housing companies which will provide market rent properties and affordable housing, which may reduce housing management costs going forward.	PSAA'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 2014/15 was in the highest third compared to its nearest statistical neighbours, mainly because of relatively high expenditure on adult social care, council tax benefits and housing benefits administration, council tax collection and housing services. However, the reasons are well understood by the Council and management has carried out benchmarking to help inform where further savings may be achieved through the MTFS.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
VALUE FOR MONEY PROFILE TOOL (continued)	In contrast, spend per head is below average in the following service areas: • Culture and sport (lowest 25%) - This is largely due to the nature of the area, which has relatively fewer heritage sites and cultural attractions. Leisure services are provided by a separate Trust and libraries are run by Essex County Council shared service, which results in lower costs in these areas. • Public health (lowest 20%) – Services are shared with other Berkshire authorities, which results in relatively lower costs. Within children's services, there are areas of relatively high and low spend. Whilst spend on children and young people services 0-17 years is in the lowest 25%, total spend on other looked after children services and on targeted services for young people 13-19 years are both in the highest 5%. This is partly due to high agency costs and investment in areas requiring improvement. Other outliers include: • Income from sales, fees & charges as percentage of total spend is in the highest third - This reflects the Council's strategic decisions regarding charging policies and actions to improve income generation • The percentage of pupils achieving 5 or more A* to C grades at GCSE or equivalent including English and maths is in the highest 5% and the percentage of 19 year olds with a level 3 qualification is in the best 5% - This has been an area of high performance for the Council for several years and includes strong performance from out of area pupils who attend schools in Slough • Maintenance of principal roads is in the highest 5% and CO_2 emissions within the scope of influence of local authorities per capita - industry and commercial is in the worst 10% – This is due to a relatively low level of road length (the denominator in the calculation) in a highly urbanised area with a disproportionally high level of traffic. We have noted that post year-end Cabinet has agreed to bring environmental and highways services back in-house, which may help to reduce costs and improve performance in this area.	As above.
OVERALL VFM CONCLUSION	**Due to the significant weaknesses in children's social care services identified by Ofsted during 2015/16, and insufficient monitoring of contractual performance of the service after it transferred to Slough Children's Services Trust on 1 October 2015, our value for money conclusion will be qualified for the year ended 31 March 2016.** **Except for weaknesses in the arrangements for children's social care services during the year, we are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness from its use of resources for the year ended 31 March 2016.**	

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Slough Borough Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit and Corporate Governance Committee.
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.
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.
The '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
SOLICE	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 one material misstatement in the primary financial statements, which management agreed to amend in the revised financial statements:

- Derecognition of HRA components (£9.235 million).

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

- Dedicated schools grant note
- Financial instruments note
- Senior officers' remuneration and exit packages note
- Amounts reported for resource allocation decisions.

These amendments, together with the other non-material amendments that management has agreed to process in the revised financial statements, are expected to decrease the surplus on the provision of services in the draft financial statements by £18.199 million (to £8.214 million).

UNADJUSTED AUDIT DIFFERENCES

There are nine unadjusted audit differences identified by our audit work (including one combined misstatement brought forward from the prior year audit) which would decrease the surplus on the provision of services in the revised financial statements by £457,000 to £7.757 million (from £8.214 million) if adjusted.

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.

UNADJUSTED 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 overstated by £234,000).

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	£'000	DR £'000	CR £'000	DR £'000	CR £'000
CIES surplus on the provision of services before adjustments (expected per revised financial statements)	(8,214)				
DR Reserves (Revaluation reserve / Capital Adjustment Account)				502	
CR Property, plant and equipment – Other land and buildings					(502)
DR Intangibles – software licences				586	
CR Property, plant and equipment					(586)
(1) Impact of brought forward misstatements (see table below)					
DR Expenditure - Central services to the public		652			
CR Expenditure - Planning services			(652)		
DR Expenditure - Public health		642			
CR Expenditure - Environment and regulatory services			(642)		
(2) Extrapolated misclassification of cost centres to services in the CIES (projected misstatement)					
DR Expenditure – Children's and education services		4,826			
CR Income - Children's and education services			(2,910)		
DR Debtors				197	
CR Creditors					(571)
DR Cash and cash equivalents				1,225	
CR Income - Children's and education services			(2,767)		
(3) Misstatement due to incorrect consolidation of schools balances and transactions (estimated misstatement)	(851)				

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	£'000	DR £'000	CR £'000	DR £'000	CR £'000
DR Investment properties				1,699	
CR Surplus assets					(1,699)
(4) Extrapolated error of investment properties incorrectly included in surplus asset balances (projected misstatement)					
DR Surplus assets				1,817	
CR Investment properties					(1,817)
(5) Extrapolated error of surplus assets incorrectly included in investment properties balances (projected misstatement)					
DR Adult social care income		500			
CR Debtors with other entities					(500)
(6) Overstatement of adult social care income relating to continuing healthcare claims (judgemental misstatement)	500				
DR Expenditure - Financing and Investment interest payable		270			
CR Expenditure - Education and children's services			(270)		
(7) Misclassification of expenditure relating to the PFI liability (factual misstatement)					

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	£'000	DR £'000	CR £'000	DR £'000	CR £'000
DR Council dwellings				3,469	
CR Revaluation reserve					(3,194)
CR Expenditure - Local authority housing			(275)		
DR General fund (through the Movement in Reserves Statement)				275	
CR Capital Adjustment Account					(275)
(8) Estimated error in the carrying value of council dwellings due to errors in revaluation movements (estimated misstatement)	(275)				
DR Taxation and no-specific grant income – Non domestic rates income		1,083			
CR Provisions – Non domestic rates appeals					(1,083)
DR Collection Fund Adjustment Account				1,083	
CR General Fund (through the Movement in Reserves Statement)					(1,083)
(9) Understatement of the non domestic rates appeals provision (Council's share) (estimated misstatement)	1,083				
TOTAL UNADJUSTED AUDIT DIFFERENCES	**457**	**7,973**	**(7,516)**	**10,853**	**(11,310)**
Surplus on the provision of services if adjustments accounted for (per revised financial statements)	(7,757)				

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND £'000
Balances before adjustments (per revised financial statements)	(8,102)
Adjustments to CIES above	457
Adjustments via movement in Reserves Statement:	
CR Schools earmarked reserves	851
DR Earmarked reserves	(500)
CR Capital Adjustment Account	275
DR Collection Fund Adjustment Account	(1,083)
BALANCE AFTER ADJUSTMENTS	**(8,102)**

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, inventories, provisions 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 note 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 provide 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 II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES FROM PRIOR YEARS	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Misstatements brought forward from prior year audit					
DR Reserves (Revaluation reserve / Capital Adjustment Account)				502	
CR Property, plant and equipment – Other land and buildings					(502)
Brought forward misstatement relating to Depreciated Replacement Cost					
DR Intangibles – software licences				586	
CR Property, plant and equipment					(586)
Ongoing misclassification of Agresso licence within property, plant and equipment rather than intangibles (factual misstatement)					
TOTAL UNADJUSTED AUDIT DIFFERENCES BROUGHT FORWARD FROM PRIOR YEAR				**1,088**	**(1,088)**

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
FINANCIAL STATEMENTS					
AUDIT WORKING PAPERS	The majority of the electronic working papers were provided two weeks after the start of the onsite audit visit. Further working papers were provided during the course of the audit. There is still significant scope for improvement of the quality and timely availability of working papers.	Management should carry out a critical review of the outcomes of the 2015/16 audit to identify the areas where further improvement needs to be made in producing effective working papers.			
ACCOUNTS PRODUCTION	A number of the issues identified in the 2015/16 audit are reoccurring issues from prior year audits.	Management should thoroughly review the draft financial statements and supporting working to ensure that previously reported errors are not repeated. Immaterial and irrelevant disclosures should be excluded.			
MAPPING OF DEBTORS AND CREDITORS	Management was unable to provide us with a working paper that clearly mapped debtor and creditor balances to the disclosures in the financial statements and we identified a number of misclassifications.	Management should produce a working papers that maps all debtor and creditor balances into the appropriate classifications and reallocates any debtors in credit and creditors in debit balances.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
FINANCIAL STATEMENTS					
SCHOOLS TRANSACTIONS	The Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) require significant improvement. Our review of the working papers for 2015/16 found that there is insufficient reconciliation between schools transactions posted to the general ledger and the returns received from schools.	Management should ensure that schools' transactions posted to the general ledger are reconciled to underlying schools returns. Management should complete a review of the consolidation of schools transactions into the accounts as part of the accounts closedown process.			
MAPPING OF INCOME AND EXPENDITURE COST CENTRES	We identified two expenditure and one income cost centre which are mapped to the incorrect SERCOP line.	Although management have adjusted for these codes in the financial statements, these codes should be remapped within the Agresso system. Management should also review the mapping of all income and expenditure into the CIES and confirm reasonableness.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
DEBTOR NOTIFICATIONS	We vouched a sample of fees and charges transactions back to debtor notification forms, however a number of these could not be located by Avarto.	The Council and its shared services should maintain all supporting documentation for seven years to comply with its internal policies for retention of data.			
PROPERTY MANAGEMENT	Our audit identified a number of properties which had been either disposed of or incorrectly classified in the fixed asset register.	Management should engage with the property management team to perform an annual review of assets to identify: • Any assets which are no longer held by the Council (these should be derecognised) • Any assets that have changed use (these should be reclassified).			
BANK RECONCILIATION	The Council was initially unable to provide us with a breakdown of the reconciling items within the bank reconciliations. There were a large number of reconciling items that had not been correctly allocated by the year-end.	Management should review processes for preparing bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the monthly bank reconciliations.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
CAPITAL ADDITIONS	Internal Audit tested seven acquisitions in the year. In two instances where completion memos had been circulated to Asset Management and Finance, the acquisitions had not been actioned on the asset register. In four instances evidence could not be obtained of completion memo being circulated and no updates had been made to the asset register either.	Management should review the controls around the documentation and review of completion memos.			
HB QUALITY CHECKS	Internal Audit identified that due to resource constraints, there was a significant backlog of quality control checks by independent housing benefit reviewers.	Management should ensure that it meets its targets set for reviewing housing benefit claims.			
HRA NEW TENANCIES	Internal Audit identified three HRA tenancy agreements which were not signed by the Council, one of which resulted in a shortfall of rental income of £1.56 per week.	Management should ensure that signed tenancy agreements are obtained for all new tenancies.			
COUNCIL TAX PARAMETERS	Internal Audit identified that there was no evidence of review of the uploading of council tax parameters by the Head of Revenues prior to the start of the financial year.	Management should ensure that a review of the council tax parameters is evidenced.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
NDR VOA RECONCILIATION	Internal Audit identified that there was no independent review of the VOA reconciliations in October 2015.	Management should ensure that the review of NDR VOA reconciliations is evidenced.			
TIMELY PAYMENT OF INVOICES	Internal Audit identified that a number of invoices were not being paid on a timely basis in accordance with the Better Payments Practice Code. This was due to invoices being received initially by the Council and not being passed promptly onto Arvarto, which delayed the payment of these invoices.	Management should ensure that all invoices received by the Council are promptly passed to Arvarto, or recommend to suppliers that invoices are issued directly to Arvarto and subsequently scanned and uploaded onto the Agresso system.			
DATA MIGRATION SUSPENSE ACCOUNTS	We reviewed the trial balance and identified the following uncleared data migration suspense account balances: - £4.180 million AP suspense - £5.625 million AR suspense - £582,000 P&L suspense - £525,000 bank suspense - £230,000 balance sheet suspense	Management should clear down the remaining balances within the data migration suspense accounts.			

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£7,700,000	£8,000,000
Clearly trivial threshold	£154,000	£160,000

Planning materiality of £8,000,000 was based on 2% of gross expenditure, based on prior year gross expenditure in the Comprehensive Income and Expenditure Statement (CIES). This was revised down when the draft financial statement were presented for audit, as the loss on disposal of non current assets is significantly lower in 2015/16 compared to the prior year as no schools were converted into academies.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Janine Combrinck - Engagement lead	1 year as engagement lead and 3 years as project manager	31 March 2020
Kerry Barnes - Audit manager	1 year as project manager	31 March 2025

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

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

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Audit fee	127,523**	180,030*	N/A	N/A
Certification fee (Housing benefits subsidy claim)	9,950***	27,500	N/A	N/A
TOTAL AUDIT FEE	**137,473**	**207,530**		
Reporting on government grants:				
- Pooling of Housing Capital Receipts return	3,535	3,535	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
- Teachers' pensions return	1,800	1,800	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
TOTAL ASSURANCE SERVICES	**142,808**	**212,865**		

* The prior year Code fee for the audit of the financial statements includes £10,000 for additional costs incurred in auditing schools balances in the accounts and the WGA return.

** We will consider the impact of audit overruns on the current year's fee when we have completed our audit.

*** The fee for the certification of the housing benefits grant claims is lower than the indicative scale fee published by Public Sector Appointments Limited as the Council has commissioned the services of a housing benefits expert to carry out the audit testing and BDO is seeking to place reliance on that work.

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

September 2016

Dear Sirs

Financial statements of Slough Borough Council for the year ended 31 March 2016

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 2016 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 Interim 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 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 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 2015, 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 events since the balance sheet date 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 international financial reporting standards 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.

APPENDIX VII: DRAFT REPRESENTATION LETTER

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 4.2%
- Rate of increase in pensions / RPI 2.4%
- Rate for discounting liabilities 3.7%
- Take up option to convert the annual pension -pre 31 March 2008 50%
- Take up option to convert the annual pension -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 3.5% applied to council dwellings (for the three months to 31 March 2016) 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 current value at 31 March 2016. 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 2016 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.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and 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. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Stephen Fitzgerald

Interim Assistant Director of Finance and Audit

[date]

Councillor Sadiq

Chair of the Audit and Corporate Governance Committee

Signed on behalf of the Audit and Corporate Governance Committee

[date]

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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