



# SLOUGH BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE  
Audit for the year ending 31 March 2018

Date of issue: 27 February 2018

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

We present our Audit Plan to the Audit and Corporate Governance Committee. 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.

This report has been prepared to highlight and explain the key components of our audit strategy we believe to be relevant to the audit of the financial statements and use of resources of Slough Borough Council ('the Council') for the year ending 31 March 2018. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK) 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 use of resources. As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources for the year ending 31 March 2018, 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 consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of 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.

## 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 welcomes feedback from external bodies and is committed to implementing all 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), the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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 audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Janine Combrinck</b> Engagement Lead	Tel: 020 7893 2631 Janine.Combrinck@bdo.co.uk	Oversee the audit and sign the audit report
<b>Francesca Palmer</b> Project Manager	Tel: 01473 320739 Francesca.Palmer@bdo.co.uk	Management of the use of resources audit
<b>Michael Asare Bediako</b> Assistant Manager	Tel: 020 7893 3643 Michael.Asarebediako@bdo.co.uk	Day to day management and supervision of the financial statements audit
<b>Zimbini Biyana</b> Senior	Tel: 01473 320 823 Zimbini.Biyana@bdo.co.uk	Day to day lead of the on-site audit team

Janine is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

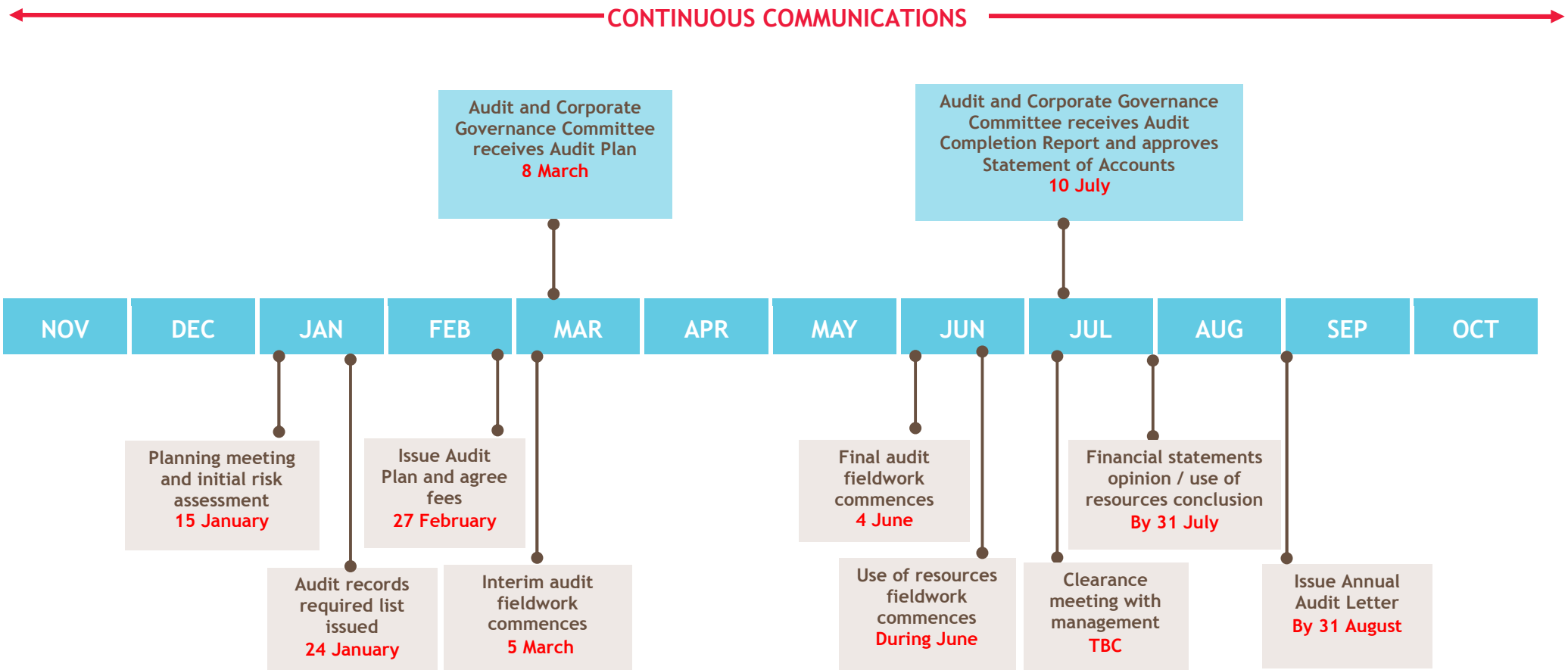
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Janine is also responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office’s (NAO) Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p><b>1</b> The financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the period in question.</p>	<p><b>2</b> The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p><b>3</b> Other information published together with the audited financial statements is consistent with the financial statements (including the Governance Statement).</p>	<p><b>4</b> The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p><b>5</b> The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

## ADDITIONAL POWERS AND DUTIES

**6** To consider the issue of a report in the public interest.  
To consider making a written recommendation to the Council.

**7** To allow electors to raise questions about the accounts and consider objections.  
To apply to the court for a declaration that an item of account is contrary to law, where necessary.  
To consider whether to issue an advisory notice or to make an application for judicial review.

# MATERIALITY

## COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Slough Borough Council	£6,700,000	£134,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 1.6% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

# OVERALL AUDIT STRATEGY

## **We will perform a risk based audit on the Council's financial statements and use of resources**

This enables us to focus our work on key audit areas.

Our starting point is to update our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to assess their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

## **Risks and planned audit responses**

For the financial statements audit, under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty

- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

## **Internal audit**

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

Internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

## **Management assessment of fraud**

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud. Management believe that the risk of material misstatement due to fraud in the Council's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud. We expect the Audit and Corporate Governance Committee, as those with governance, to let us know if there are any actual, suspect or alleged fraud of which they are aware.



# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other Issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Test a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.
Revenue and expenditure recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We consider there to be a significant risk in relation to the existence and cut-off of revenue grants included as income in net cost of services within the Comprehensive Income and Expenditure Statement, when conditions attached to such grants have not been met.</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test a sample of revenue grants recorded as income in the net cost of services to documentation from grant paying bodies and check whether revenue recognition criteria have been met</li> <li>• Test a sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been</li> <li>• Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Financial statements preparation</b>	<p>Our audit in the prior year identified weaknesses in the Council's arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified, including material misstatements in the following areas:</p> <ul style="list-style-type: none"> <li>• Senior officer remuneration and exit packages note</li> <li>• Cash Flow Statement and associated notes</li> <li>• Financial instruments notes</li> <li>• Debtors and creditors analyses.</li> </ul> <p>There is a risk of material misstatement in the 2017/18 financial statements if the weaknesses in Council's arrangements for preparing the financial statements are not addressed.</p>	<p>We will assess progress towards improving production of the 2017/18 financial statements and supporting working papers. This will include:</p> <ul style="list-style-type: none"> <li>• Carrying out an early review of the draft financial statements against the requirements of the Code of Practice for Local Authority Accounting 2017/18</li> <li>• Reviewing the consistency of the financial statements with underlying working papers before the start of the onsite audit visits</li> <li>• Review management's plans for carrying out a review of the financial statements before they are submitted for audit; this could be evidenced by comprehensive explanations for all significant variances from the prior year</li> <li>• Early testing of the areas where material misstatements were identified in the prior year.</li> </ul>	<p>Not applicable.</p>
<b>Schools' transactions and reconciliations</b>	<p>In prior years we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves required significant improvement.</p> <p>There is a risk of material misstatement in the 2017/18 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools' transactions are not addressed.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review reconciliations between the general ledger and returns submitted by schools to support their income, expenditure, working capital balances and reserves. In addressing this risk, the Council will need to utilise the information provided by schools more effectively</li> <li>• Substantively test a sample of schools' transactions to check the accuracy and existence of transactions.</li> </ul>	<p>Schools returns authorised by the Treasurer or Head teacher of each school.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Bank and cash	<p>Our audit in the prior year identified weaknesses in the Council's arrangements for preparing bank and cash working papers, and a significant number of misstatements were identified in the financial statements.</p> <p>There is a risk of material misstatement in the 2017/18 financial statements if the weaknesses in working papers prepared to support the cash and cash equivalents balance in the financial statements are not addressed.</p>	<p>We will carry out an early and detailed review of the working papers provided to support the cash and cash equivalents balance in the financial statements, including analyses of all bank accounts and associated bank reconciliations.</p>	Not applicable.
Expenditure and funding analysis and change in directorate structure	<p>A management restructure during the year has resulted in the creation of new directorates. These changes will require a new mapping of income and expenditure to services in the Comprehensive Income and Expenditure Statement (CIES) and the Expenditure and Funding Analysis (EFA), and a restatement of comparatives.</p> <p>Our audit in the prior year also identified weaknesses in the Council's arrangements for preparing the EFA and restating comparatives, resulting in significant presentational misstatements in the accounts.</p> <p>There is a risk that the CIES and EFA may not be properly prepared in accordance with the new directorate structure and the requirements of the Code of Practice for Local Authority Accounting 2017/18, including restatement of comparatives to ensure consistency between the years.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the CIES and EFA and check that they been prepared in accordance with the Code of Practice for Local Authority Accounting 2017/18</li> <li>• Check that income and expenditure has been appropriately mapped to the new directorates</li> <li>• Check that the CIES and EFA comparatives have been appropriately and consistently mapped and that management is able to explain any significant variances between the years.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p><b>Group accounts</b></p>	<p>The Council is one of two members of a limited liability partnership (LLP), trading as Slough Urban Renewal Partnership LLP (SUR LLP). It has a 50% interest in the LLP, the remaining interest being held by the other member, a private sector construction services business. The arrangement comprises a joint venture as defined by IFRS 11 “Accounting for joint arrangements.” In prior years the Council has accounted for its interest in the joint venture on a cost basis and has not prepared Group Accounts, as its share of transactions in the joint venture has not been material. There has been an increase in activity in the joint venture in the current year and therefore it is possible that the Council will now need to prepare Group Accounts and account for its interest in the joint venture using the equity method of accounting.</p> <p>During the year the Council established two wholly owned housing subsidiaries (Herschel Homes Limited and James Elliman Homes Limited), to assist in the provision of affordable homes.</p> <p>There is a risk that the Council may have a material interest in these entities, individually or cumulatively, which would require that the Council prepare Group Accounts for the first time.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review evidence of management’s assessment of its interests in these entities for the purposes of establishing whether Group Accounts are required</li> <li>• Review the financial statements and management accounts of SUR LLP and its subsidiaries, Herschel Homes Limited and James Elliman Homes Limited, to assess the adequacy of management’s assessment</li> </ul> <p>If Group Accounts are required, we will:</p> <ul style="list-style-type: none"> <li>• Check that assets, liabilities, income and expenditure in the joint venture and in the subsidiaries are appropriately consolidated in the Group Accounts, including conversion from FRS102 to IFRS based accounts under CIPFA’s Code of Practice on Local Authority Accounting</li> <li>• Check that the disclosure requirements of IFRS 12 “Disclosure of Interests in Other entities” and the Code of Practice on Local Authority Accounting have been complied with in preparing Group Accounts.</li> <li>• Liaise with the auditors of the other entities and review their most recent audit completion reports, considering the impact of any significant findings on our audit of the Group Accounts.</li> </ul>	<p>Financial statements and/or management accounts and audit completion reports for SUR LLP and its subsidiaries, Herschel Homes Limited and James Elliman Homes Limited.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p><b>Valuation of non-current assets</b></p>	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out revaluations on a sample of assets as at 1 January 2018, and a further market movements review will be performed on these assets as at 31 March 2018.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert</li> <li>Check whether the basis of valuation for assets valued in year is appropriate; in particular, we will check whether an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost and that investment properties and surplus assets have been valued at 'highest and best use'</li> <li>Review the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions.</li> </ul>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council. We will follow up valuation movements that appear unusual against indices, or any assets which have not been revalued at the year-end which may have had material movements since the last formal valuation.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p><b>Pension liability assumptions</b></p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the membership data and cash flows provided to the actuary as 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Agree the disclosures to the information provided by the pension fund actuary</li> <li>• Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>• Obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary</li> <li>• Check whether any significant changes in membership data have been communicated to the actuary.</li> </ul>	<p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Related party disclosures</p>	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p> <p>Our audit in the prior year found that the related parties note did not adequately disclose the Council's transactions and balances with Slough Urban Renewal LLP.</p> <p>There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2017/18 requirements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions</li> <li>• Discuss with management and review councillors' and senior managers' declarations to ensure there are no potential related party transactions which have not been disclosed</li> <li>• Discuss with management and review minutes of meetings for key management personnel services received from other entities, and check that all required disclosures have been made.</li> </ul>	<p>Companies House searches for undisclosed interests.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - WHOLE OF GOVERNMENT ACCOUNTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Accuracy and completeness of the data collection tool</p>	<p>We are required to perform tests with regard to the WGA Data Collection Tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>In prior years we identified a significant number of errors within the return, with the result that the Government's deadline for completion of the audit of the DCT was not met in the last five years.</p> <p>The achievement of the deadline will depend on the quality of the return, its timely receipt and the quality of the supporting working papers.</p> <p>There is a risk the DCT will contain numerous errors and incomplete CPID analyses, and the audit deadline will not be met if there are a large number of adjustments to the draft return.</p>	<p>We will check the consistency of the WGA return with the audited financial statements and supporting working papers, and review the completeness and accuracy of CPID data.</p>	<p>Not applicable.</p>



# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES - SUSTAINABLE DEPLOYMENT OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Medium term financial strategy</p>	<p>The update to the Medium Term Financial Strategy (MTFS) to 2020/21 has forecast further reductions in Government core grant funding and annual inflationary and pay award pressures.</p> <p>Significant levels of savings are required to balance the budget in three of the four years from 2017/18. As at February 2018 the savings requirement amounts to £12.411 million in 2017/18, £5.596 million in 2018/19 and £5.135 million in 2020/21.</p> <p>The Council has a number of savings schemes, regeneration projects and capital projects in progress to generate additional income going forward. These include:</p> <ul style="list-style-type: none"> <li>• Management and staff restructuring</li> <li>• Reductions in revenue costs associated with the Slough Children’s Services Trust</li> <li>• Investment in housing property companies</li> <li>• Insourcing environmental services</li> <li>• Development of two hotels in the centre of town</li> <li>• Development at the Thames Valley University site.</li> </ul> <p>There is a risk that the MTFS does not adequately take account of the investment costs associated with major savings schemes and development projects and that there are insufficient underlying risk management and monitoring arrangements in place to ensure successful delivery of these projects.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the reasonableness of the MTFS assumptions, including investment costs associated with major savings schemes and capital projects</li> <li>• Review the adequacy of risk management and monitoring arrangements underpinning major development projects.</li> </ul>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES - INFORMED DECISION MAKING

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Internal control and governance arrangements	<p>Our 2016/17 use of resources conclusion was qualified due to weaknesses in the system of internal control and governance arrangements in key areas such as information governance, risk management, compliance with the Local Government Transparency Code, HR policies and procedures and whistleblowing response procedures.</p> <p>There is a continuing risk that the Council may not be able to demonstrate that it has addressed these issues and applied the principles and values of sound governance and internal control to support informed decision making during 2017/18. In the absence of sufficient evidence of improvement, we may need to qualify our use of resources conclusion again.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the Council's processes to address Internal Audit's prior year recommendations</li> <li>We will assess the potential impact on our audit of continuing or further weaknesses in the system of internal control identified by Internal Audit and other governance issues of which we are aware.</li> </ul>	None.
Senior management and councillors	<p>There has been a high and sudden turnover of a number of members of the leadership team and key operating personnel during 2017/18, alongside an organisation restructuring. Changes in senior officers include the Chief Executive and the Leader of the Council.</p> <p>The Council's risk register acknowledges that changes in senior officers may result in a loss of corporate memory, deterioration in the control framework and decisions being made without a firm policy footing.</p> <p>Whilst there has been a reduction in the numbers of senior interim officers since the prior year, which should help to bring stability to the Council in the longer term, there is a risk that the Council may not respond appropriately to the changes during the year. This could lead to reduced performance and weaknesses in informed decision making.</p>	<p>We will assess how effectively the Council has responded to the changes in its leadership and management team during the year, by review of risk management and other processes supporting key decision making during the year.</p>	None.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES - PARTNERSHIP WORKING

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Children's social care services</p>	<p>Our 2016/17 use of resources conclusion was qualified due to ongoing significant weaknesses in Children's Social Care Services. Ofsted concluded that improvements in the service have largely been achieved after 31 March 2017 and there is still some way to go before vulnerable children can rely on a service that meets their needs and reduces the risks that they experience.</p> <p>There is a continuing 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 2017/18, in managing the contract with the Trust. In the absence of sufficient evidence of improvement, we may need to qualify our use of resources conclusion again.</p>	<p>We will gain an understanding of action taken by the Council and Slough Children's Services Trust during 2017/18 to address Ofsted's recommendations and seek evidence of improved processes.</p>	<p>Not applicable.</p>

# INDEPENDENCE

## INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the year ending 31 March 2018.

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

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors 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. These policies include director and manager rotation. The table in Appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

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

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# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 £	2016/17 £
Audit fee - scale fee	127,523	127,523
Audit fee - additional fee for financial statements audit and use of resources audit	-**	TBC*
Certification fee - Housing benefits subsidy claim	30,000	30,000
<b>Total PSAA regime fees</b>	<b>157,523</b>	<b>TBC</b>
Fees for audit related services:		
- Pooled capital receipts return	1,800	1,800
- Teachers' pensions return	3,535	TBC***
Fees for other non-audit services		
- None	-	-
<b>TOTAL FEES</b>	<b>162,858</b>	<b>TBC</b>

\* We incurred significant cost overruns on the 2016/17 audit, in respect of both the financial statements audit and the use of resources audit, due to the large number of issues identified by the audit and delays in completing the audit. We are in the process of discussing additional fees with management, which will also be subject to agreement by Public Sector Audit Appointments Limited. We will update the Audit and Corporate Governance Committee on the outcome of these discussions when they are concluded.

\*\* The scale fee published by PSAA is based on a 'normal' level of risk and does not cover the significant additional work that has been required over the last few years in addressing the large number of issues identified by the audit. We will keep the level of our fees for 2017/18 under review and discuss any overruns with management and the Audit and Corporate Governance Committee as the audit progresses.

\*\*\* Our work on certifying the 2016/17 teachers' pensions return remains in progress as a result of significant difficulties experienced by the Council's shared service provider in responding to audit queries following a change in the payroll system during 2016/17.

Audit fee invoices will be raised in quarterly instalments of £31,880.75 during 2017/18.

Fee invoices for other audit related services will be raised as the work is completed.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the on-site audit visits.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.


### UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Corporate Governance Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
  - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
  - We will obtain written representations from the Audit and Corporate Governance Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
  - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
    - Other misstatements that we believe are material or clearly wrong.
-

## APPENDIX II: INDEPENDENCE

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Janine Combrinck - Engagement lead	Three years as engagement lead and three years as project manager
Francesca Palmer - Project manager	First year as project manager
Michael Asare Bediako - Assistant manager	Second year as assistant manager and one year as audit senior





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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