SLOUGH BOROUGH COUNCIL

UPDATED RISK ASSESSMENT TO THE AUDIT AND RISK COMMITTEE

Audit for the year ending 31 March 2015

8 July 2015

EXECUTIVE SUMMARY

We presented our audit plan for the year ending 31 March 2015 to the Audit and Risk Committee on 12 March 2015. The plan summarised the work that we proposed to undertake in respect of our audit of Slough Borough Council for the 2014/15 financial year.

We received the draft accounts certified by the Assistant Director Finance and Audit on 30 June 2015 in accordance with the timetable specified by the Government. Based on our review of the draft financial statements, we have decided to update the level of audit materiality and our risk assessment, as summarised below. Appendix A contains an updated risk matrix for the attention of Members.

Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

Based on our review of the draft financial statements, we have set an increased materiality at £6.5 million (1.5% of actual gross expenditure in the Comprehensive Income and Expenditure Statement). The materiality level has increased from the level previously reported (£4.2 million and 1% of average gross expenditure in the Comprehensive Income and Expenditure Statement). We will keep the level of materiality under review throughout the audit and in the light of the scope and quality of working papers provided to support the financial statements.

For reporting purposes, we consider misstatements of less than £130,000 to be trivial, unless the misstatement is indicative of fraud. This is an increase compared to the level reported to Members at the planning stage (£84,000) We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit and Risk Committee are required to consider and we will request that you correct them.

Updated risk assessment

We have updated our risk assessment to:

- Highlight our audit response to the classification of income and expenditure risk will involve testing a sample of transactions in accordance with our risk assessment
- Include a new risk involving the defined benefit pension fund disclosures in the light of the material increase in the pension fund liability disclosed in the draft financial statements and because a high degree of estimation is used in determining the transactions and disclosures included in the financial statements.

RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
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 stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income.	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	**RISK DETAIL**	**ACCOUNTS AREA AND ASSERTIONS**	**AUDIT RESPONSE**
FINANCIAL STATEMENTS PREPARATION	Our prior year audit identified weaknesses in the Council's arrangements for preparing the financial statements. A significant number of misstatements were identified, where the financial statements were inconsistent with underlying records. These were corrected in the final financial statements, including material amendments to the following statements and notes: • Comprehensive Income and Expenditure Statement (CIES), for consolidation of the Housing Revenue Account transactions • Cash Flow Statement and supporting notes • Financial instruments note • Amounts reported for resource allocation decisions note • Senior officer remuneration bandings note • Housing Revenue Account notes. Management is working to address these weaknesses in producing the 2014/15 financial statements. However, until improved outcomes can be demonstrated, including sufficient progress against the recommendations made in the prior year, there is a risk regarding the accuracy of these disclosures in the 2014/15 financial statements.	Accuracy of disclosures.	We will work with the finance team to assess progress towards the project for improving production of the 2014/15 financial statements. This will include: • carrying out an early review of the draft financial statements against the requirements of the *Code of practice for Local Authority Accounting 2014/15* • issuing a detailed list of audit working paper requirements and briefing finance staff on our expectations for good quality working papers • reviewing the consistency of the financial statements with underlying working papers before the start of the onsite audit visit • obtaining assurance that management has carried out a critical 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.
UPDATED RISK **CLASSIFICATION OF INCOME AND EXPENDITURE**	**Updated risk assessment 3 July 2015** Our prior year audit found a significant number of instances where support costs and overheads that were recharged from one service to another within the Council were incorrectly classified within the CIES, resulting in an overstatement of both gross income and gross expenditure. There is a risk of material misstatement of the 2014/15 financial statements if internal recharges are not correctly classified in the general ledger.	Presentation of income and expenditure.	We will substantively test a sample of transactions in accordance with our risk assessment to check whether they have been correctly accounted for on a net basis within the CIES.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	**RISK DETAIL**	**ACCOUNTS AREA AND ASSERTIONS**	**AUDIT RESPONSE**
SCHOOLS TRANSACTIONS	In the prior year we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves required improvement. There is a risk of material misstatement in the 2014/15 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions are not addressed.	Existence, completeness and accuracy of income, expenditure, working capital balances and reserves in relation to schools.	We will 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.
NEW ACCOUNTING STANDARDS	The *Code of practice for Local Authority Accounting 2014/15* includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control, which should be used to determine whether entities and joint arrangements should be consolidated within the Council's financial statements. The Council will need to review its investments in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns. In addition, the new standards mean that the Council needs to carry out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets. This may result in a material value of school buildings being brought on the Balance Sheet, including restatement of comparatives by way of prior period adjustments.	Completeness of income and expenditure and balances for entities requiring consolidation; and completeness of Property, Plant and Equipment for schools.	We will review the Council's justification for its accounting treatment of all material investments in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied. We will also review the Council's justification for consolidating or not consolidating schools' non-current assets, including supporting property agreements held by schools.
NEW RISK **DEFINED BENEFIT PENSION (DBP) SCHEME DISCLOSURES**	**New risk 3 July 2015** The draft financial statements indicate the pension fund liability has increased from £169.7 million to £225.7 million. This is a material increase. The disclosure in the financial statements of DBP scheme amounts are based on a high degree of estimation.	Valuation of DBP scheme liability and accuracy of disclosures.	We will agree the disclosures to the information provided by the Berkshire Pension Fund actuary. We will review the assumptions made by the actuary for reasonableness and compared to national indices.

USE OF RESOURCES SIGNIFICANT RISKS		
RISK	**RISK DETAIL**	**AUDIT RESPONSE**
FINANCIAL RESILIENCE	Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes and uncertainty about future costs associated with Children's Social Care Services in Slough, will have a significant impact on the financial resilience of the Council in the medium term. For 2014/15 the Council is currently reporting (as at month 9) a forecast overspend of £0.69 million and just under two thirds of the £12.5 million of identified savings plans are on track to be delivered. The Medium term Financial Strategy (MTFS) for the period 2015 to 2019 includes a savings requirement of £36.28 million (for the four year period) for which savings of £27.54 million have been identified. Achieving this scale of savings will continue to present a significant financial risk for the Council.	We will review the Council's MTFS to assess the reasonableness of assumptions and how the Council is addressing financial pressures.
CHILDREN'S SOCIAL CARE SERVICES	Our 2013/14 value for money conclusion was qualified because of significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, and the Inspectors' judgement that insufficient progress had been made in the inspection of arrangements for safeguarding children completed in 2013. The Council is working with the Department for Education to establish a new model for the delivery of certain Children's Social Care Services. The model has not yet been determined but is expected to remove specified services from Slough's direct control. The new model is expected to be fully implemented in 2015. There is a risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2014/15 when it retained direct control for these services. In the absence of sufficient evidence of improvement there is a risk we may qualify our value for money conclusion.	We will gain an understanding of any action taken by the Council during 2014/15 to address Ofsted's recommendations and seek evidence of improved processes and outcomes.
CONTRACT MANAGEMENT	Internal Audit's review of contract management in the current year and prior years have resulted in several 'red' and 'amber/red' reports and a number of high priority recommendations. Identified weaknesses in the current year have included inadequate processes for defining and agreeing key performance indicators (KPIs) with contractors, the absence of clearly documented validation procedures, no KPI reports in the year for one of the Council's major contracts and a lack of validation and transparency over the cost base for another significant contract. There is a risk the Council is not securing value for money from its contract management arrangements.	We will review the results of further contract management reviews carried out by Internal Audit and progress being made in implementing (Internal Audit's) recommendations.
WELLBEING BOARD	The Slough Wellbeing Board (the Board) is in its second year of full operation and the Board's objectives are being taken forward through Priority Delivery Groups (PDGs) and various sub-groups, which includes a Health PDG. The new Care Act (2014) will come into force on 1 April 2015, with the availability of funding through the Better Care Fund (BCF). The Council should be developing appropriate governance arrangements for its BCF pooled budgets with clinical commissioning groups (CCGs) to support the integration and transformation of health and social care services.	We will review progress being made by the Slough Wellbeing Board against its objectives and the development of governance arrangements for pooled budgets with CCGs under the BCF.

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