SLOUGH BOROUGH COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016

EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
January 2017

EXECUTIVE SUMMARY

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 9 December 2016.

We were not able to complete our audit by the national deadline of 30 September 2016 due to significant delays in obtaining appropriate working papers and supporting documentation for our audit samples this year, and a significant number of issues arising from the audit.

Delays in obtaining audit documentation arose primarily in areas outside of the direct control of the finance team and were exacerbated by a change in the general ledger system during the year.

We reported our preliminary audit findings to the Audit and Corporate Governance Committee on 29 September 2016, based on audit work completed at that stage. We issued an updated report to members of the Audit and Corporate Governance Committee on 23 November 2016.

We reported 15 uncorrected misstatements which management and the Audit and Corporate Governance Committee Chair concluded were immaterial.

USE OF RESOURCES

We issued a qualified ‘except for’ conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 9 December 2016.

Our value for money conclusion was qualified on the basis of 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.

WHOLE OF GOVERNMENT ACCOUNTS

We issued an unqualified assurance report on the Council’s final Whole of Government Accounts data collection tool (DCT) to the National Audit Office on 22 December 2016.

Our audit of the DCT identified a significant level of differences between the Council’s draft DCT and audited financial statements and issues with the accuracy and completeness of the reported intra Government counter party balances. These were all corrected in the final DCT.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

AUDIT CLOSURE CERTIFICATE

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 22 December 2016, following completion of our audit of the Whole of Government Accounts DCT.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of your housing benefits subsidy grant claim is in progress and the results will be reported upon completion of this work.

We issued an unqualified conclusion on the pooling of capital receipts return on 30 November 2016.

We issued an unqualified conclusion on the Teachers’ Pension EOYCa form on 12 December 2016.

FINANCIAL STATEMENTS

OPINION	We issued an unqualified true and fair opinion on the financial statements on 9 December 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

REVENUE RECOGNITION	RESPONSE	FINDINGS
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 considered 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 focused on testing completeness and existence of fees and charges across all service areas within the CIES.	No issues that impact on the net cost of services were identified by our testing of revenue from fees and charges.

FINANCIAL STATEMENTS
Continued

FINANCIAL STATEMENTS PREPARATION	RESPONSE	FINDINGS
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 • 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 • Note on pooled budget disclosures • 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 provided detailed 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. We carried out a full review of the areas where significant misstatements were identified in the prior year.	As we reported in the prior year, there remains 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 the following misstatements, which were corrected in the final financial statements: • Material misstatement of disclosures in the dedicated schools grant note as the total grant after academy recoupment was overstated by £139.1 million • Overstatement of income and expenditure in the CIES by £2.8 million due to fees from internal recharges not being netted off expenditure • Incorrect mapping of services in the CIES, resulting in identified misclassifications totalling £5.6 million, and further unadjusted potential misclassifications of £1.3 million • Material errors and omissions in the financial instruments note disclosures • Omissions in the senior officer remuneration and exit packages note • Inconsistencies between the note on amounts reported for resource allocation decisions and other parts of the financial statements, including material misstatement of disclosed amounts for depreciation, amortisation and impairment/(reversals) • Material omissions in pooled budget disclosures • Overstatements of cash balances totalling £8.4 million, with associated misstatements in debtors and creditors, and further unadjusted understatements totalling £2.3 million • Misclassification of £4.2 million in the debtors note in respect of transactions with Slough Children's Services Trust.

FINANCIAL STATEMENTS
Continued

CHANGE IN THE GENERAL LEDGER SYSTEM	RESPONSE	FINDINGS
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 issued a partial assurance opinion.	We reviewed management's reconciliation of the transfer of transactions and Internal Audit's working papers, in particular 2,183 exceptions reported in regards to the transfer of individual account balances and £11.1 million of data migration suspense account balances.	We were satisfied that the general ledger transactions were not materially misstated as a result of the data migration exceptions. We were also satisfied that the accounts were not misstated as a result of the uncleared data migration suspense account balances. We did not identify any issues with regards to the validity of these balances. 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 were corrected in the final financial statements.

SCHOOLS TRANSACTIONS AND RECONCILIATIONS	RESPONSE	FINDINGS
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 had 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 tried to reconcile the amounts and identified potential misstatement in the accounts.	Our audit found that £2.1 million of schools reserves were incorrectly classified within the earmarked reserves note. This was corrected in the final financial statements. Our comparison of schools balances in the accounts to information on schools returns identified a net difference of £2.8 million. The Council is unable to provide a comprehensive explanation for this difference, therefore the difference has not bene adjusted for. The schools reserves position has been sufficiently reconciled in the audit and 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.

FINANCIAL STATEMENTS
Continued

LENDER'S OPTION BORROWER'S OPTION LOANS	RESPONSE	FINDINGS
A number of councils which hold Lender's Option Borrower's Option (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 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 have reviewed available documentation to establish the conditions under which the LOBO borrowing was taken.	This is a national issue that came to light from the significant number of objections received by auditors this year. From the information that we have reviewed, we are satisfied that 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 were 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). The Council included a comment on its LOBOs in its contingent liabilities note within the final financial statements.

FINANCIAL STATEMENTS
Continued

NON-CURRENT ASSET VALUATIONS	RESPONSE	FINDINGS
Local authorities are required to ensure that the carrying value of their non-current assets is not materially different to their current value (for property, plant and equipment excluding surplus assets) or fair value (for investment properties and surplus assets) at the Balance Sheet date. 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 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. We considered there to be a risk over the valuation of non-current assets.	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 was appropriate based on Code requirements. We compared the outputs of the valuation exercise to available market information.	Our sample testing found that the Council had made a number of input errors in accounting for the formal valuations. As a result, the following errors were identified: • Understatement of council dwellings by £3.5 million, which was not corrected in the final financial statements • Overstatement of investment properties by £2.6 million, which was adjusted for in the final financial statements. We were satisfied that indexation applied for the last quarter of the year, from the date of the formal valuations until year end, was not unreasonable.

FINANCIAL STATEMENTS
Continued

PENSION LIABILITY ASSUMPTIONS	RESPONSE	FINDINGS
The net pension liability comprises the Council's share of the market value of assets held in the Royal County of Berkshire Pension Fund 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 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.	We reviewed the assumptions used by the actuary for reasonableness by reference to a consulting actuary's report commissioned by the National Audit Office. The key changes to the financial assumptions were: • a reduction in future salary increase from 4.3% to 4.2% • a reduction in future pension increases from 2.5% to 2.4% • an increase in the discount rate from 3.4% to 3.7% (to place a current value on the future liabilities through the use of market yield of corporate bonds).	The increase in the discount rate resulted in a significant decrease in the present value of the scheme liabilities at 31 March 2016. We were satisfied that the assumptions used were not unreasonable or outside of the expected ranges provided by the independent consulting actuary.

FINANCIAL STATEMENTS
Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

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.

The materiality for the financial statements as a whole was set at £7.7 million. This was determined with reference to a benchmark of gross expenditure (of which it represents two per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Corporate Governance Committee that we would report all individual audit differences in excess of £154,000.

Unadjusted audit differences

Our audit found 15 audit differences not corrected in the final financial statements, of which the following eight misstatements impacted on the reported surplus:

- Estimated impact of incorrect consolidation of schools balances and transactions (£0.9 million understatement of surplus)
- Overstatement of adult social care income relating to continuing healthcare claims (£0.5 million overstatement of surplus)
- Estimated error in the carrying value of council dwellings due to errors in revaluation movements (£0.3 million understatement of surplus)
- Understatement of the non domestic rate appeals provision (£1.1 million overstatement of surplus)
- Overstatement of council tax income in the CIES (£0.9 million overstatement of surplus)
- Understatement of non domestic rates income in the CIES (£0.5 million understatement of surplus)
- Understatement of surplus assets due to incorrect adjustment for disposals (£0.9 million understatement of surplus)
- Balances incorrectly included in miscellaneous cash account codes (£0.3 million understatement of surplus).

Correcting for these remaining misstatements would result in the Council reporting a £0.4 million higher surplus for the year.

We considered that these misstatements did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS
Continued

Corrected audit differences

Our audit identified one material misstatement of £9.135 million in the primary financial statements in respect of an overstatement of property, plant and equipment, as replaced components were not derecognised when capital expenditure was incurred on council dwellings. This was corrected in the final financial statements.

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

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

These amendments, together with the other non-material amendments that management processed as a result of the audit, decreased the surplus on the provision of services by £17.590 million from £26.413 million reported in the draft financial statements to £8.823 million in the final financial statements.

Other matters we report on

Annual governance statement

We recommended a number of amendments to the Annual Governance Statement, including disclosure of key issues identified by Internal Audit during the year. We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We recommended a number of amendments to the narrative report, and we were satisfied that the information in the final narrative report for the financial year for which the financial statements were prepared was consistent with the financial statements.

FINANCIAL STATEMENTS
Continued

Internal controls

Our audit identified a number of significant deficiencies in internal controls and processes. This included:

- **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 significant scope for improvement in the quality and timely availability of working papers
- **Accounts production:** A number of the issues identified in the 2015/16 audit are reoccurring issues from prior year audits, indicating scope for more detailed management review the draft financial statements and supporting workings
- **Debtor notifications:** A number of debtor notification forms were not retained by the Council’s transactional services provider, meaning a breach of the Council’s 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
- **Bank reconciliations:** The Council was initially unable to provide us with a breakdown of the reconciling items within the bank reconciliations and there were a large number of reconciling items that had not been correctly allocated by the year-end
- **Schools transactions:** The Council’s arrangements for consolidating information from schools into the CIES and the balance sheet requires significant improvement, as there is insufficient reconciliation between schools transactions posted to the general ledger and the returns received rom schools
- **Property management:** Our audit identified a number of properties which had been either disposed of or incorrectly classified in the fixed asset register.

A number of other areas for improvement were identified which we discussed with management.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This required that we compare the information in the Council’s Data Collection Tool (DCT) with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

Our audit of the DCT identified a significant level of differences between the Council’s draft DCT and audited financial statements and issues with the accuracy and completeness of the reported intra Government counter party transactions and balances.

A number of misstatements arose as a result of account codes in the new Agresso system being incorrectly mapped to the codes required for producing the DCT return. We have advised management to correct this within the system to prevent the errors from reoccurring in future years.

All misstatements that were individually and cumulatively above £1 million were corrected in the final DCT.

We issued an unqualified assurance report on the Council’s final DCT to the National Audit Office on 22 December 2016.

USE OF RESOURCES

CONCLUSION	We issued a qualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 9 December 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

SUSTAINABLE FINANCES: 2015/16 PERFORMANCE	FINDINGS
Our planning identified a risk regarding the challenging level of savings in the Council's financial plans. We considered the Council's budget setting and budget monitoring arrangements, and the effectiveness of those arrangements by assessing financial performance 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). Internal audit identified a few medium and low priority issues that needed to be addressed in order to ensure that the control framework is effective. There were overspends in the children's and families service and in the adult social care service. However, the Council managed these pressures during the year by one-off gains and driving out savings from other areas. Overall the Council achieved its budget plans for 2015/16 and reported an underspend of £0.039 million against its revised budget for the year. The Council achieved 71% of its £9.8 million savings target for the year. The general fund balance as at 31 March 2016 was £8.1 million, which is in line with the prior year. Earmarked have decreased by £2.7 million, to £16.1 million, to resource planned projects in accordance with the Council's priorities. These reserves includes £7.9 million of schools balances.	We were satisfied that the Council had 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. The general fund balance and earmarked reserves act as a potential buffer against future risks, although the amount of headroom provided in fairly limited.

USE OF RESOURCES
Continued

SUSTAINABLE FINANCES: 2015/16 PERFORMANCE CONTINUED	FINDINGS
Housing Revenue Account (HRA) The movement in the Housing Revenue Account (HRA) in 2015/16 was an increase of £4.6 million, resulting in an HRA balance of £29.1 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 £12.1 million at 31 March 2016, an increase of £0.8 million 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 £0.4 million at 31 March 2016. The Council reported a collection rate of 96.52% for the year, which was higher than prior year performance of 96%. A surplus of £0.6 million 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 £0.7 million due to charges for appeals against business rate valuations. The collection rate for the year was 97.12%, which was above prior year performance of 96.8%.	The overall Collection Fund is in deficit by £0.3 million at 31 March 2016, which is an improvement on the prior year deficit balance of £2.1 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.
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.

USE OF RESOURCES
Continued

SUSTAINABLE FINANCES: MEDIUM TERM	FINDINGS
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 almost £37 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 refresh of the MTFS presented to Cabinet in July 2016 updated the financial planning assumptions for the four years ahead, from 2017/18 to 2020/21. This indicated a savings requirement of £38 million over the period. Our planning identified a risk that the 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 reviewed the MTFS assumptions and assessed the reasonableness of plans to reduce services costs and increase income to close the budget gap. The MTFS 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. The Council set a balanced budget for 2016/17 in February 2016. The savings target for the year is £10.1 million and specific schemes have been identified for the full savings requirement, although there is risk associated with an number of these schemes. To help identify savings for the MTFS, the Council commenced an outcomes based budgeting exercise in 2015/16, whereby 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 could 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.	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. 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

CHILDREN'S SOCIAL CARE SERVICES	FINDINGS
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 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 sought evidence of improved processes. **The position from 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

CHILDREN'S SOCIAL CARE SERVICES	FINDINGS
The position from 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 highlighted numerous weaknesses in the service. However it recognised that there had 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 concluded that changes made by both the Council and the Trust had 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 did not receive 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 during 2015/16. 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 identified ongoing significant weaknesses in these services in 2015/16. In addition, there was insufficient assurance of any significant improvement in the service since Ofsted's 2015 inspection.

USE OF RESOURCES
Continued

CHILDREN'S SOCIAL CARE SERVICES	FINDINGS
The position 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. In 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.	There is evidence of improved collaborative working between the Council and the Trust since year end. Assurance arrangements still need further development to enable the Council to monitor performance against its contract with Slough Children's Services Trust.

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 was qualified for the year ended 31 March 2016. Except for weaknesses in the arrangements for children's social care services during the year, we were satisfied that the Council had adequate arrangements in place to secure economy, efficiency and effectiveness from its use of resources for the year ended 31 March 2016.

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION	We have not exercised our statutory powers and have no matters to report.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 22 December 2016, following completion of our audit of the Whole of Government Accounts data collection tool.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2014/15 housing benefits subsidy claim found a number of errors, although these had no significant impact on the amount of subsidy claimed.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress. We were not able to complete our work by the national deadline of 30 November 2016 due to significantly delays in obtaining the testing results from the consultant contracted by the Council to undertake this work.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a ‘reasonable assurance’ review, based on the instructions and guidance provided by the Departments, for the following returns for 2015/16:

- Pooled housing capital receipts (deadline 30 November 2016)
- Teachers’ pensions return (deadline 30 November 2016)

We issued an unqualified conclusion on the pooling of capital receipts return on 30 November 2016. The return was amended for a misstatement identified by management before our work began. We did not identify any further errors.

We issued an unqualified conclusion on the Teachers’ Pension EOYCa form on 12 December 2016. Our work did not identify any misstatements and the form was not amended.

APPENDIX

Reports issued

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification work 2014/15	February 2016
Audit plan	February 2016
Final audit report	November 2016
Annual Audit Letter	January 2017

Fees

We reported our original fee proposals in our audit plan. We are not yet in a position to finalise our fees for the 2015/16 audit of the Council.

AUDIT AREA	PLANNED FEES (£)	ADDITIONAL FEE (£)	FINAL FEES (£)
Code audit	127,523	25,235*	152,758
Certification of housing benefits subsidy	9,950	TBC*	TBC*
Fee for audit services	137,473	TBC*	TBC*
Audit related services:			
• Pooled housing capital receipts	1,800	-	1,800
• Teachers' pension return	3,535	-	3,535
Fee for audit related services	5,335		5,335
Non audit related services:			
- None	-	-	-
Total fees	**142,808**	**TBC***	**TBC***

*We incurred significant overruns against our budgeted costs due to the issues and delays encountered in the audit. We have agreed with management an additional fee of £25,235 for the audit of the financial statements, which is subject to approval by PSAA. Our audit of the housing benefits subsidy claim is in progress and we are discussing additional fees with management.

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