SLOUGH BOROUGH COUNCIL

AUDIT FINDINGS REPORT

Audit for the year ended 31 March 2017

Issued to the Audit and Corporate Governance Committee 14 December 2017

BDO

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INTRODUCTION

PURPOSE AND USE OF THIS REPORT

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

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

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

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 necessary actions to address their findings.

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

More details can be found in our latest Transparency Report at www.bdo.co.uk.

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We were not able to complete our audit by the national deadline of 30 September 2017 primarily due to: • Significant delays in determining whether or not the Council was required to prepare Group Accounts for its interest in Slough Urban Renewal LLP joint venture • A significant number of issues arising from our audit of the financial statements and use of resources • Delays in obtaining explanations and supporting documentation for some of our audit queries. We have now substantially completed our audit work and subject to the resolution of matters set out on page 7 below, we have completed our audit procedures in accordance with the planned scope.
Audit risks	No additional significant risks were identified during the course of our audit procedures subsequent to our Audit Plan presented to the Audit and Corporate Governance Committee in July 2017, when we informed the Committee that we were escalating the risk regarding pension liability assumptions from a normal risk to a significant risk.
Materiality	Our final materiality is £6.7 million. We informed the Audit and Corporate Governance Committee of this level of materiality when we presented our Audit Plan to the Committee in July 2017.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Additional powers	We are satisfied that management has acknowledged weaknesses in its governance arrangements in its 2016/17 Annual Governance Statement, to be published as part of its 2016/17 Statement of Accounts, and that action is being taken to address these issues during 2017/18. Specifically, in respect of necessary improvements to the preparation of the financial statements, including supporting working papers, we have taken account of ongoing activity to increase the level of resources in the finance team and an additional layer of quality control review by management. We have therefore not at this stage sought to exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 in respect of the 2016/17 audit. However, we will closely monitor developments in this area.

SUMMARY

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	We identified the following material misstatements in the primary financial statements, which management has amended: • £55.7 million understatement of income and expenditure as a result of housing benefit subsidy income being incorrectly netted off against housing benefit expenditure • £10.265 million understatement of property plant and equipment due to the two blocks of flats being incorrectly valued as council dwellings rather than surplus assets awaiting demolition, with a corresponding understatement of the revaluation reserve by £9.968 million and an understatement of the reversal of previous loss in the CIES by £297,000 • £8.1 million overstatement of debtors and creditors as a result of a prior year audit adjustment in respect of Collection Fund balances reversing in the current year. In addition, we identified a number of presentational misstatements in the following notes which we consider to be either quantitatively or qualitatively material: • Cash Flow Statement and associated notes • Housing Revenue Account notes • Expenditure and funding analysis and associated notes • Property plant and equipment note • Financial instruments notes • Gain/(loss) on non-current assets note • Senior officers' remuneration and exit packages note. • Related parties note. These amendments, together with the other non-material amendments that management has processed in the revised financial statements, have decreased the deficit on the provision of services by £3.586 million, from £36.590 million to £33.004 million.

SUMMARY

KEY AUDIT AND ACCOUNTING MATTERS	
Unadjusted audit differences	There are 12 unadjusted audit differences in the primary statements identified by our audit work which, when combined with the impact of brought forward unadjusted errors, would if corrected decrease the deficit on the provision of services by £2.165 million. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.
Control environment	Our audit identified a number of significant deficiencies in internal controls in respect of: • Quality of audit working papers • Financial statements preparation process • Mapping of debtors and creditors • Bank reconciliations • Schools' transactions • Maintenance of the fixed asset register • Process for preparing Group Accounts • Weaknesses in IT general controls around user access and password security.
AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 7 below, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Annual governance statement	Following the amendments made to the Annual Governance Statement, we have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing a modified opinion on the use of resources for the year ended 31 March 2017 due to combination of weaknesses in the Council's system of internal control and governance arrangements and continuing weaknesses in Children's social care services. Our draft auditor's report is included at Appendix VII.

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resource deployment	We are satisfied the Council has adequate arrangements for budget setting and whilst there were some weaknesses in budget monitoring and financial reporting in the year, the Council has retained its track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends. The Medium Term Financial Strategy (MTFS) reflects known savings and cost pressures and the key assumptions are not unreasonable.
Informed decision making	Due to weaknesses in the system of internal control and 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 during 2016/17, we are proposing to qualify our use of resources conclusion. The Council had not during the year demonstrated or applied the principles and values of sound governance and internal control to support informed decision making.
Partnership working	Whilst we are satisfied that there have been improvements in the joint working and performance monitoring arrangements in place between the Council and the Trust during 2016/17, Ofsted has 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. We are therefore proposing to qualify our use of resources conclusion.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT & CORPORATE GOVERNANCE COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT) once we have been provided the DCT by the Council. As at the date of writing we have not yet received the DCT for audit. The statutory deadline for submission of the audited DCT was 29 September 2017.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Audit certificate	We will issue our audit certificate after we have completed our work on the whole of government accounts.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing an unmodified opinion on the financial statements. The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Corporate Governance Committee meeting at which this report is considered:

1 Clearance of outstanding issues on the audit queries tracker currently with management:
- Updated related party disclosures
- Updated cash flow workings
- Completion of audit amendments to the Statement of Accounts

2 Internal quality control review process

3 Subsequent events review

4 Final review and approval of the Statement of Accounts

5 Management representation letter, as attached in Appendix VI, to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our earlier Audit Plan dated 7 March 2017.
Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	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. Under auditing standards there is a presumed significant risk of management override of the system of internal controls.	Our response to this risk included: • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewing accounting estimates for biases and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	We did not identify any issues in our review of the appropriateness of journal entries and other adjustments made to the financial statements. We did not find any indication of material management bias in accounting estimates. Our views on significant management estimates are included below. No unusual or transactions outside of the normal course of business were identified.
2	**Revenue recognition**	Under auditing standards there is a presumption that income recognition presents a fraud risk. 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.	We tested a sample of revenue grants recorded as income in the net cost of services to documentation from grant paying bodies and checked whether revenue recognition criteria were met.	We did not identify any issues in our testing of revenue grants.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Financial statements preparation	Our audits in the last few years have 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: • Disclosures in the dedicated schools grant (DSG) note • Financial instrument notes • Senior officer remuneration and exit packages note • Note on amounts reported for resource allocation decisions • Pooled budgets note • Detailed analysis of the cash and cash equivalents balance and supporting bank reconciliations • Debtors and creditors mapping.	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 against the requirements of the Code of Practice on Local Authority Accounting 2016/17 and provided detailed feedback to management in early August. We carried out a high level analytical review of the financial statements against comparatives and sought explanations from the Council for material variances. We commenced our testing of the areas where significant misstatements were identified in the prior year at an early stage in the audit.	From our initial review of the draft financial statements it was clear that they contained a similar level of inconsistencies and presentational issues compared to the draft statements provided to us in the prior year. We sought assurance that management had carried out a critical review of the draft financial statements but we were not able to obtain explanations for significant variances in income and expenditure between the current year and prior year until detailed audit work had commenced. The majority of the electronic working papers were provided to us at the start of the audit, which was an improvement on previous years. However, we identified a number of inconsistencies and missing information in the working papers provided. There is still significant scope for improvement in the quality of the financial statements and underlying working papers. Our audit of this significant risk highlighted a number of misstatements as set out below:

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Financial statements preparation** **(continued)**	We audited the disclosures in the DSG note.	The amount recorded in the note for final DSG income for 2016/17 before academies recoupment allocation was £330,000 more than the amount notified by the Education and Skills Funding Agency. This has not been amended in the revised financial statements and is recorded as an unadjusted disclosure matter in Appendix I.
		We audited the financial instrument note and note on risks arising from financial instruments.	Our audit identified errors in the following, most of which were material: • Financial assets analysis table (casting error) • Carrying amounts disclosed for financial assets and financial liabilities in the fair value tables • Maturity structure of borrowing (incorrect analysis between the years) • The disclosure of percentages of debt held in the debt portfolio as fixed rate and variable rate. Management had agreed to amend these issues in the final financial statements. The Code of Practice on Local Authority Accounting 2016/17 requires that authorities disclose an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired. As in previous years, the Council has not disclosed this information because it cannot readily produce. Additionally, the maturity analysis for financial liabilities does not meet the Code's requirements for financial instrument disclosures as it has been prepared on the basis of amortised cost rather than undiscounted contractual cash flows. This has not been amended in the revised financial statements and is recorded as an unadjusted disclosure matter in Appendix I.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Financial statements preparation** **(continued)**	We audited the disclosures in the Senior officers' remuneration and exit packages note.	Our audit of the Senior officers' remuneration and exit packages note identified the following issues, which were material by nature: • Officers' Remuneration - The previous Chief Executive's remuneration was misstated in total and the payment in lieu of notice was included under Salary, fees and allowances rather than Compensation for loss of office - The remuneration of the Strategic Director for Regeneration, Housing & Resources was misstated as it did not agree to the Matrix report - The note did not clearly separate out different individuals who held the same post during the year, showing the start and leave date for each individual. • Bandings for remuneration over £50,000 - The disclosure was misstated due to the double counting of seven schools employees across five salary bands. • Exit Packages - Payments in lieu of notice were incorrectly excluded from the calculations supporting the disclosure for exit packages - One exit package for £34,000 was omitted in the draft financial statements. Management had agreed to amend these issues in the final financial statements.
		We audited the new Expenditure and income by nature note, which has in effect replaced the previous Amounts reported for resource allocation decisions note.	The results of our testing of the new Expenditure and income by nature note are covered under the significant risk regarding changes in the presentation of the financial statements below.
		We audited the disclosures in the Pooled budgets note.	Our audit of the Pooled budgets note did not identify any issues.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Financial statements preparation** **(continued)**	We audited the cash and cash equivalents balance and supporting bank reconciliations.	Our audit identified the following misstatements in the cash and cash equivalents balance, which have been corrected in the revised financial statements: • £5.7 million understatement of cash and cash equivalents and creditors for a payment that was recorded in the general ledger before year end but did not clear the bank until after year end • £4.8 million understatement of cash and cash equivalents and creditors due to a rejected payment being credited to a payable suspense account within cash and cash equivalents at the year-end instead of being reallocated to creditors • £3.046 million overstatement of cash and cash equivalents and understatement of debtors due to a prior year audit adjustment being processed twice in 2016/17 • £934,000 understatement of the bank balance as a result of cash received in the general bank account being credited to a miscellaneous bank account in the general ledger (which offset the amount in the general ledger account) instead of allocating £912,000 to debtors and £22,000 to income. Correction of these misstatements has increased the cash and cash equivalents balance by £8.388 million. The following errors identified by our audit have not been corrected and are recorded as unadjusted errors in Appendix I: • Precept payments of £683,000 to the Police Authority and £444,000 to the Fire Authority were debited to a bank suspense account instead of creditors, with the result that the cash and cash equivalents balance and creditors were both overstated by £1.127 million *(unadjusted error number 1)* • There is an unreconciled net credit balance of £291,000 between the 'data migration' account and a 'bank suspense' account that should net off, which suggests that cash and cash equivalents is understated by this amount *(unadjusted error number 2)*.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Financial statements preparation** **(continued)**	We audited the classification of debtors and creditors within these notes.	Our audit identified the following misclassification issues: • Debtors and creditors were both overstated by £8.1 million as a result of a prior year audit adjustment in respect of Collection Fund balances reversing in the current year. Management has corrected this error. Management has agreed to correct this issue in the final financial statements. • Council tax receipts in advance were all classified as central government balances, instead of allocating the preceptors' share of £388,00 to 'Other local authorities' and the remaining balance of £1.590 million to 'Other entities and individuals'. Management has agreed to classify these balances correctly in the final financial statements. • Creditors included net debit balances of £159,000 in respect of NHS bodies, which should be reclassified to debtors. This issue has not been corrected and is recorded as an unadjusted error in Appendix I *(unadjusted error number 3)*. • Debtors included a credit balance of £5.888 million on the non domestic rates cash control account, which should have been classified as short term creditors. This issue has been corrected in the revised financial statements. In addition, the short-term creditors balance per the creditors note was £5.7 million lower than the balance in the Balance Sheet due to an error in the note. This issue has been corrected in the revised financial statements.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Schools' transactions and reconciliations**	In prior years we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances and reserves require significant improvement. There is a risk of material misstatement in the 2016/17 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions are not addressed.	We reviewed the returns received from the schools and checked if they had been authorised by the Treasurer or Head teacher. We encountered significant difficulties in auditing schools balances as there was insufficient reconciliation between the balances in the general ledger and the returns received from schools. We worked with management to try to reconcile the amounts and have identified potential misstatement in the accounts.	The audit trail between the schools returns and the processing of transactions into the Council's accounts was inadequate. Our comparison of schools balances in the accounts to information on schools returns identified the following differences: • £1.754 million higher expenditure in the accounts • £1.465k million lower income in the accounts • £257,000 net lower net assets (combination of cash/debtors/creditors) in the accounts. These net to a difference of £2.962 million. The Council is unable to provide a comprehensive explanation for the difference. However, the schools reserves position has been sufficiently reconciled therefore it appears that the income and expenditure differences may be due to misclassifications of transactions between schools and non-school accounts rather than incomplete posting. We have recorded this as an unadjusted misstatement in Appendix II *(unadjusted error number 4)* and we have assumed that the balancing item of £2.962 million is an understatement of expenditure (worst case scenario).

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Changes in the presentation of the financial statements	The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) based on the Council's directorate structure and reporting to members • Change to the format of the Movement in Reserves Statement • New Expenditure and funding analysis (EFA) note • Change to the Segmental reporting note • New Expenditure and income analysis note. These changes have required a restatement of comparative figures. There is a risk that these presentational changes are not correctly applied in the financial statements.	We have reviewed the draft financial statements against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.	In preparing the new format CIES, £55.7 million of housing benefit subsidy income was incorrectly netted off against the total housing benefit expenditure, with the results that Corporate services income and expenditure were both understated. This has been corrected in the revised financial statements. The misstatement has no impact on the general fund balance. Our audit did not identify any issues with the Movement in Reserves Statement but there were some presentational issues in the note for Adjustments between accounting basis and funding basis under regulations. These have been corrected in the revised financial statements. The draft financial statements did not include Segmental income note as required by the Code. This has been included in the revised financial statements, however the comparative figures still need to be inserted in the final financial statements. Our audit also identified some misstatements in the Expenditure and income analysis note, which have been corrected in the revised financial statements.

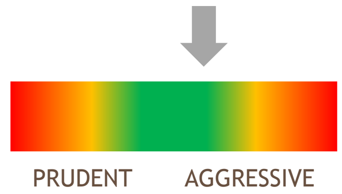
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Group accounts preparation	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 Morgan Sindall, 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 16/17 and therefore we considered it likely that the Council would need to account for its interest in the joint venture using the equity method of accounting and prepare Group Accounts. There was a risk that the Council's interest in the joint venture may not be correctly accounted for in the single entity accounts and that Group Accounts may not be appropriately prepared.	We engaged early with management and discussed the need to determine the value of the Council's interest in SUR LLP. We requested that the Council provide a full assessment of its interest in SUR LLP by calculating the net assets position of SUR and its consolidated subsidiaries at 31 March 2017.	Management stated that they did not consider their interest to be material, however there were insufficient working papers to justify this assertion. From initial information provided by management it appeared that the Council's share of SUR LLP's net assets was material. However, once management had prepared interim consolidated accounts for SUR LLP and we were able to discuss these with the group accountant at Morgan Sindall, it was then evident that the Council's share of the net assets in the joint venture was not material at 31 March 2017. The Council is therefore not required to prepare Group Accounts for the year ended 31 March 2017. However, we have raised a recommendation in Appendix II for management to liaise more closely with Morgan Sindall on the joint venture accounts going forward, as it likely that the Council's interest in SUR LLP will be material in 2017/18. Given that the deadline for certification of the Council's financial statements will move forward to the end of July 2018, management should engage early with Morgan Sindall to ensure that the audits of SUR LLP and its subsidiaries are completed in time for the earlier closedown of the Council's accounts.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Valuation of non-current assets	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 and investment properties) at the balance sheet date. The Council appointed an external valuer to carry out a revaluation on a sample of assets, as at 1 January 2017, and a further market movement review as at 31 March 2017. 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 year end.	We reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert. We checked that the basis of valuation for assets valued in year was appropriate, including 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 were valued based on 'highest and best use.' We reviewed valuation movements against independent data showing indices of price movements for similar classes of assets. We followed up valuation movements that appeared unusual against indices, or any assets which had material movements since the last valuation.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on their work. For the samples of non-current asset valuations reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for, subject to correction of audit adjustments. Our review of the reasonableness of valuation assumptions applied is noted on the following pages.

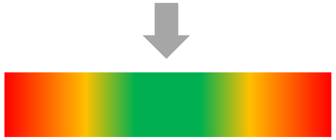
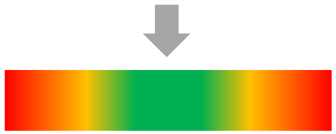
KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Non-current asset valuations		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**AUDIT CONCLUSION**
Dwellings are valued by reference to open market value less a social housing discount Operational land and buildings are valued by reference to existing use market values Some operational specialist buildings are valued at depreciated replacement cost by reference to building indices Surplus assets and investment properties are valued by reference to highest and best use market value	We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations. **Council dwellings** The valuation provided by the valuer at 1 January 2017 and a further 1% upwards indexation applied for the last quarter of the year resulted in revaluation gains of £62.117 million. £14.53 million of this increase is due to a decrease in the social housing discount factor. The remaining increase of 11.5% is within a reasonable range in comparison to regional trends of property prices in the South East and local factors within Slough. **Buildings** The valuation provided by the valuer for the sample of assets revalued at 1 January 2017, and a 3% upwards indexation applied for the last quarter of the year for assets revalued on a depreciated replacement cost basis, resulted in net revaluation losses of £2.058 million. This net downwards revaluation includes a revaluation loss of £8.1 million on the new Slough library, The Curve, which was completed during the year and transferred out of Assets under construction during the financial year at a cost of £24 million. Excluding the non-recurring downward revaluations, buildings have increased in value by 5.2%. This compares to the BICS public sector Tender Price index for buildings which indicates regional increases of 4.5%. We are satisfied that overall the valuations fall within a reasonable range. Land and buildings not valued in year totalled £52.367 million. We reviewed a sample of these properties against movements in market indices and are satisfied that the value in the accounts is not unreasonable.	

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations (continued)

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
	Surplus assets All surplus assets were revalued as at 1 January 2017, with no indexation recognised for the last quarter in accordance with the valuer's year end market review. Our testing on the valuation basis of surplus assets identified that two blocks of flats correctly classified as surplus assets in the asset register had been incorrectly valued as council dwellings on the existing use value basis incorporating the social housing factor, instead of fair value, as the Council had not updated the information provided to show that the two blocks had been reclassified from council dwellings to surplus assets. The valuation of these properties was not recorded in the asset register. The fair value of these properties was determined to be £10.3 million, therefore the net book value of surplus assets was understated by £10.265 million, the revaluation reserve was understated by £9.968 million (net upward revaluation of £11.211 million and downward revaluation of £1.243 million) and the reversal of previous loss in the CIES was understated by £297,000. This issue has been corrected in the revised financial statements, resulting in overall revaluation gains on surplus assets of £13.386 million. The gains are largely due to the two blocks of flats noted above being valued on a fair value 'highest and best use' basis for the first time.	 PRUDENT AGGRESSIVE
	Investment properties All investment properties were revalued as at 1 January 2017, with no indexation recognised for the last quarter in accordance with the valuer's year end market review, resulting in a fair value gain of £322,000. This represents an increase of 1.5%, which is lower than the increases indicated by the Regional House Index; IPD Sector Capital Growth Index and BICS Public Sector Tender Price Index. The valuer has provided property and area-specific explanations for the movements, which are considered reasonable.	 PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Pension liability	The net pension liability comprises the Council's share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by Barnett Waddingham, 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. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We agreed the disclosures to the information provided by the pension fund actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. We checked whether significant changes in membership data have been communicated to the actuary.	Our audit of the Defined benefit pension scheme note found that the value of bonds and equities was misstated and the note had not been correctly updated from the prior year for the percentage of quoted and unquoted scheme assets. In addition, the disclosure of the potential impact on the liability for a 1% increase or decrease in the discount rate was misstated. Management has agreed to amend these disclosures in the final financial statements. We also found that the note did not correctly disclose the expected contributions to be paid in 2017/18. This has been amended in the revised financial statements. Our consideration of the actuarial assumptions used by the pension fund actuary is noted on the following pages. We have referred to the findings from an independent review of actuarial assumptions by PwC, which was commissioned centrally by Public Sector Audit Appointments Limited.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

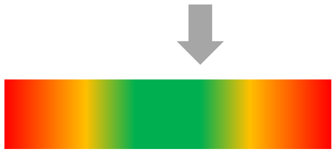
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

HOW RISK WAS ADDRESSED BY OUR AUDIT

The actuary has used the following assumptions to value the future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
RPI increase	3.6%	3.5-3.6%	Top of expected range (as no deduction for inflation risk premium)
CPI increase	2.7%	2.6-2.7%	Top of expected range (derived from RPI above)
Salary increase	4.2%	--	Employer and scheme specific
Pension increase	2.7%	2.6-2.7%	Top of expected range (derived from RPI above)
Discount rate	2.8%	2.7-2.8%	Above expectations (does not reflect full shape of the underlying yield curve or timing of the benefit payment)
Mortality - LGPS:			
- Male current	25.1 years	23.5-26.6	Reasonable and within expected range
- Female current	27.4 years	26.5-28.3	Reasonable and within expected range
- Male retired	23.0 years	21.4-24.4	Reasonable and within expected range
- Female retired	25.0 years	24.2-26.0	Reasonable and within expected range.

AUDIT CONCLUSION



PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES	
Pension liability assumptions	
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**
Continued	PwC's review of assumptions applied by Barnet Waddingham concluded that: *The discount rates proposed at all durations fall outside of the top end of our expected ranges at 31 March 2017. Individually, we might view these assumptions to be optimistic, and auditors may wish to consider whether a lower discount rate (for example a reduction of 0.1%) would lead to materially different accounting entries for their employers. Auditors may be able to gain comfort that the assumptions in aggregate (i.e. considering all the financial and demographic assumptions together) will result in liability figures that are not materially misstated at 31 March 2017, albeit the chosen assumptions will be disclosed in the pensions note and thus subject to external scrutiny.* In response, we commissioned a separate review from an independent actuary (Broadstone) to review the strength of the assumptions applied and the potential impact on the calculation of the liability. **Discount rates** This review concluded that, while the discount rate range applied was high, the approach to obtain a single point from the yield curve is an acceptable method. A benchmarking exercise found that a rate up to 2.80% approached the 95th percentile (normal range 2.55% - 2.75%), and that the rate applied for this pension fund at 2.70% was above average but within a normal range. An increase of 0.1% in the discount rate would decrease the liabilities by 2%. **Inflation rates** A review of the RPI inflation assumptions concluded that the rate applied was high, and followed the same methodology as the discount rate curve methodology in not adjusting for an inflation risk premium. A benchmarking exercise found that a rate up to 3.60% approached the 95th percentile (normal range 3.28% - 3.48%), and that the rate applied for this pension fund at 3.60% was above a normal range. An increase of 0.1% in the discount rate would increase the liabilities by 2%.

KEY AUDIT AND ACCOUNTING MATTERS

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT
Continued	**Overall impact of assumptions** PwC concluded that overall Barnett Waddingham liabilities calculations tended to be generally ‘strong’ (i.e. placing a higher value on the liabilities) and that in combination the higher discount rate and higher inflation assumptions may result in an acceptable valuation. The Broadstone review concurred with this view and stated that reducing both the discount rate and inflation assumptions would bring these into line with general expectations, but would not lead to materially different liability calculation. **Conclusion** The impact of the higher discount rate and inflation rates tend to counteract each other and the overall liability calculation is reasonable.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Existence, accuracy and presentation of non-current assets	Our prior year's audit identified weaknesses in the Council's arrangements for ensuring that non-current assets included in the fixed asset register (FAR) exist, are accurately stated and correctly classified. A number of misstatements were identified, including: • Incorrect inclusion of assets previously disposed of or demolished • Incorrect inclusion of an asset where the Council had surrendered the lease back to the leaseholder • No de-recognition of replaced components • Misclassification of investment properties as property, plant and equipment • Misclassification of property, plant and equipment as investment properties • Misclassifications between operational assets and surplus assets within property, plant and equipment • Incorrect input of a number of valuations, resulting in differences between the FAR and the valuer's certificate. There is a risk of continuing errors in non-current assets as a result of weaknesses in processes for updating the FAR.	We tested a sample of non-current assets to check whether: • Assets exist and are owned by the Council • Components have been correctly de-recognised on replacement • Assets are correctly classified • Valuations agree to the valuer's certificate. We will also reviewed the reconciliation between valuation totals in the FAR for each asset category to totals per the valuer's certificate.	Our audit identified the following issues that have been corrected in the revised financial statements: • Five assets that had been demolished in the year were still included in the FAR, with the result that property, plant and equipment and investment properties were overstated by £189,000 and £69,000 respectively, with corresponding understatement of losses on disposal. In addition, the land element of one of these buildings needed to be reclassified from investment properties to surplus assets within property, plant and equipment. • Our audit enquiries identified more properties that were earmarked for demolition before the year end and demolished after year end. These assets should have been reclassified as surplus assets at the year end. As a result, surplus assets was understated by £6.879 million, investment properties was overstated by £110,000, council dwellings was overstated by ££578,000, other land and buildings was overstated by £6.037 million, and vehicles, plant and equipment was overstated by £154,000. • The draft Property, plant and equipment and Investment properties notes had net adjustments of £905,000 and £21,000 respectively to opening balances as a result of adjustments posted in 2016/17 back into the prior year FAR. As the amounts are not material they could not be disclosed as prior period adjustments and had to be represented as in-year transactions in the revised financial statements.

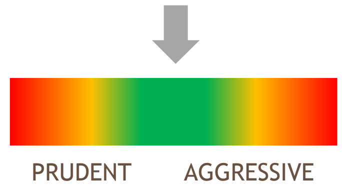
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Existence, accuracy and presentation of non-current assets (continued)	As above.	As above.	Our audit also identified the following misstatements that management has agreed to make in the final financial statements: • Differences between the Property, plant and equipment note and the FAR indicate that the Council had not written out depreciation on revaluation totalling £12.458 million from the gross cost and accumulated depreciation sections of the note. In addition, our audit also identified the following misstatements that management has decided not to adjust: • Understatement of the depreciation charge by £135,000 due to incorrect useful lives applied to four assets. We have recorded this as an unadjusted misstatement in Appendix II (unadjusted error number 5). • Comparison of the gross valuation per the valuer's spreadsheet to the FAR found that differences totalling £762,000k, with the result that property plant and equipment is understated by this amount. We have recorded this as an unadjusted misstatement in Appendix II (unadjusted error number 6). For the corresponding side of the entry we have assumed an equal split between the revaluation reserve and the CIES. Overall, significant audit adjustments have been made to the financial statements in this area. Most notably the year-end net book value of surplus assets has increased by £17.1 million to £26.9 million.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	Related party disclosures	We 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. The 2016/17 Code includes an addition to the definition of a related party for an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity, and new disclosures are required for these services provided by separate management entities. There is a risk that related party disclosures are not complete and in accordance with the Code requirements.	We updated our understanding of the related party transactions identification procedures in place and reviewed the relevant information identified transactions. We also discussed with management and reviewed councillors' and senior managers' declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us. We also considered whether key management personnel services received from other entities had been adequately disclosed as related parties. We carried out a Companies House search to check the completeness of disclosed interests.	Our audit found that the Related parties note does not adequately disclose the Council's transactions and balances with Slough Urban Renewal LLP. Management has agreed to include these disclosures in the final financial statements.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
Allowance for non-collection of receivables	The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates. The Council estimates the housing benefits overpayments impairment allowance using collection rate data. For council tax debtors, the impairment allowances are based on the collection of income using information available over the last 15 years. An allowance is made for outstanding debt based on the difference between income received and the average income expected to be received. For business rate debtors, the impairment allowance is based on a five year collection cycle with an average provision rate applied. We have reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile. Overall we have concluded that the impairment allowances for receivables are reasonable.	

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
1	Cash flow statement	A number of misstatements in the Cash Flow Statement and supporting notes were identified by the audit. This includes £9.7 million of deferred capital receipts which were incorrectly included in proceeds from sale of Property, plant and equipment, although there no were cash proceeds resulting from this transaction. We are awaiting updated working papers to agree the changes.
2	Housing Revenue Account	Our audit identified the follow disclosure misstatements within the Housing Revenue Account (HRA) and supporting notes, which have been corrected in the revised financial statements: • No disclosure of the vacant possession housing value as at 1 April 2016 • Within the note on Non-current assets values, the current year values for Assets under construction and Investment properties were misstated • Within the note on Depreciation, impairment and reversal of non-current assets, the impairment values did not match the fixed asset register, or the amounts used for the transfer between the HRA & the Capital adjustment account • Within the note showing the Differences between accounting basis and funding basis, the value for transfers to the Major repairs reserve of £12.496 million had the incorrect sign • Within the HRA Capital expenditure note, there was a line missing for Non-operational assets in the current year and the amount shown as spend on operational assets was incorrect.
3	Borrowings	Our audit found that the Council had misclassified £202,000 of accrued interest on borrowings as long-term borrowing instead of short-term borrowing. The Code requires the portion of long-term liabilities due to be settled within 12 months after the Balance Sheet date, including accrued interest, be disclosed separately as other current creditors. This has been corrected in the revised financial statements.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
4	Long-term Investments	Our audit found that the Council had misclassified accrued interest of £788,000 on long-term investments receivable within 12 months as long-term investments instead of short-term investments. The Code requires the portion of long-term assets due to be received within 12 months after the Balance Sheet date, including accrued interest, to be disclosed separately. This has been corrected in the revised financial statements.
5	Long-term debtors	Our audit found that long term debtors were understated by £2.646 million as the Council omitted to accrue for the HRA element of overage income that the Council is entitled to receive under a development agreement. This has been corrected i9n the revised financial statements. The£2.646 million is net of £472,000 interest which will be unwound annually until 2020. Our audit also found that overage income of £1.164 million receivable under a separate development agreement was included in long-term debtors on the basis that receipt of the income was due in 2020. However, the developer requested to pay the overage income early so the Council invoiced them with payment due in September 2017. As this is within 12 months of the year-end, the debtor should have been reclassified as short-term. This has not been corrected in the financial statements and we have recorded it as an uncorrected misstatement in Appendix I *(unadjusted error number 7)*.
6	Provisions	Our audit noted that In the provisions note the amount of the provision utilised in the year had been incorrectly netted off the increase in provision during the year. Management has agreed to correct this issue in the final financial statements. In addition, the provision for appeals on non domestic rates is understated by £220,000 due to differences between the general ledger and the Council's workings. This has not been corrected in the financial statements and we have recorded it as an uncorrected misstatement in Appendix I *(unadjusted error number 8)*.
7	PFI liability	We compared the PFI payments recorded in the PFI model, which is used to generate the accounting transactions, to the invoices received from the contractor in the year. The invoices from the contractor exceed the unitary payment in the PFI model, with the result that the service concession finance charge is understated and service expenditure is overstated by £223,000. This has not been corrected in the financial statements and we have recorded it as an uncorrected misstatement in Appendix I *(unadjusted error number 9)*. In addition we noted that value of PFI assets in the Property, plant and equipment note did not agree to the PFI assets in the asset register. Management has agreed to correct this in the final financial statements.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
8	Income: fees and charges	From our testing of fees and charges income we identified the followings errors: • Better Care Fund (BCF) income totalling to £5.310 million was initially recorded under income from fees and charges. This income relates to BCF income paid by NHS Bracknell and Ascot CCG. Amounts were then reallocated to different income cost centres. The reallocation journal was erroneously processed by crediting the various income codes and debiting expenditure, rather than debiting fees and charges income. As a result, Wellbeing income and expenditure were both overstated by £5.310 million. This issue has been corrected in the revised financial statements. • Notional Better Care Fund income of £3.725 million had been recognised as income despite no actual income received or receivable. This is the expenditure paid outside of the pooled budget by CCGs, but the Council had included it in the accounts in order to show the total value of the pooled budget. This issue has been corrected in the revised financial statements. • A journal that was posted to reallocate income of £1.294 million from Wellbeing income to Children and learning skills income was done by incorrectly crediting expenditure (Children and learning skills) instead of income. As a result, Wellbeing income and expenditure were both understated by £1.294 million. This issue has been corrected in the revised financial statements. • The Council pays for expenditure on behalf of some school academies and is reimbursed by invoicing the schools. However, the invoiced amount was recognised as income despite this being a recharge of expenditure which should be netted off expenditure. Further investigation found Wellbeing income and expenditure were both overstated by a total of £3.6 million due to incorrect grossing up of recharges. This issue has been corrected in the revised financial statements. • Two further instances of recharge invoices not being netted off expenditure. When extrapolated over the untested population, we have estimated total overstatement of income and expenditure of £488,000 for this issue. This has not been corrected in the financial statements and we have recorded it as an uncorrected misstatement in Appendix I *(unadjusted error number 10)*.
9	Interest income and expenditure	An internal recharge of £328,000 of interest charged by the General fund to the HRA is included in interest payable and interest receivable. This should have been netted off and has been corrected in the revised financial statements.
10	Non domestic rates income	Our audit found that non domestic rates income within Taxation and non-specific grant income was overstated by £814,000 due to the inclusion of grant income. This has not been corrected in the financial statements and we have recorded it as an uncorrected misstatement in Appendix I *(unadjusted error number 11)*.
11	Collection Fund debtors	In our audit of Collection fund debtors we were unable to locate debtors of £2.266 million when we compared to Academy reports and the Council's workings supporting preceptors' balances. Management has not been able to explain where the missing balances are coded. In the absence of a full analysis, we have recorded this difference as a potential understatement of income (worst case scenario) in the unadjusted errors schedule at Appendix I *(unadjusted error number 12)*.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
12	Members' allowances	The disclosure in the note was misstated due to the double counting of month 5 payroll data. Management has agreed to correct this issue in the final financial statements.
13	Audit fees	Audit fees disclosed in the note were overstated by £29k for the current compared to the planned fee and the prior year figure was understated by £35k. This was mainly due to the late receipt of invoices for additional fees in respect of the prior year audit. Management has agreed to correct this issue in the final financial statements.
14	Capital commitments	The capital commitments note did not include all significant commitments and some commitments differed from those in the capital budgets. Management has agreed to correct this issue in the final financial statements.
15	Events after reporting date	The five year revaluation to adjust the rateable value of business properties to reflect changes in the property market came into effect on 1 April 2017. Under the accounting standards, this is a non-adjusting post balance sheet event and should be disclosed as such in the financial statements. This issue has been included in the note in the revised financial statements.
16	Other disclosure issues	A number of other disclosure misstatements were identified, which have been corrected in the revised financial statements. These include: • The analysis of movements in the revaluation reserve balance did not split out the upward and downward element of the in-year revaluation • The other operating expenditure note did not include the net proceeds from sale HRA of £11.328 million.
17	Accounting policies note	The accounting policies note does not disclose additions are not depreciated in the year of acquisition. Management has agreed to include this in the final financial statements.
18	Immaterial disclosures	The financial statements include a number of notes that are not material, such as intangible assets, inventories and provisions. These should be removed as they distract from the material information on the financial statements. The need to review and removal of immaterial disclosures from the financial statements is recorded as a recommendation in Appendix II.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
19	Fraud and error	We are not aware of any instances of fraud other than housing benefit and housing tenancy fraud committed against the Council. Our audit procedures have not identified any material errors due to fraud.

OTHER REPORTING MATTERS

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

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and published on the website on 30 June 2017. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	As reported in the financial statements preparation significant risk section above, there has been limited improvement in the quality of working papers compared to the prior year, particularly in the following areas: • Reconciliations of schools balances and transactions • Analyses of the cash and cash equivalent balance and supporting bank reconciliations for all balances • Debtors and creditors mapping • Working papers to explain all manual adjustments posted between the trial balance and the financial statements. A recommendation for improvement is recorded in Appendix II.
2	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	Our audit identified a number of issues with the Annual Governance Statement, which have been corrected in the revised Statement: • Correction of a few factual inaccuracies • Update to the section on policies to state that the Anti-Fraud and Corruption strategy was reviewed during the year and a new Confidential Reporting Code agreed, and that there were some weaknesses in HR-related matters during the year as a result of HR policies not being up to date, sufficiently clear or appropriately complied with • Updates to statements made in the future tense where the time period has now passed • Inclusion of acknowledgement of weaknesses in the financial statement preparation process • Amendment to the conclusion which suggested that the governance arrangements have remained fit for purpose • Inclusion of information on data confidentiality breaches.
3	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our review of the Narrative Report identified a few inconsistencies with the financial statements. These have been corrected in the revised Narrative Report.

CONTROL ENVIRONMENT

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

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

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified the following significant deficiencies, which are included in the recommendations and action plan at Appendix II:

- Quality of audit working papers
- Financial statements preparation process
- Mapping of debtors and creditors
- Bank reconciliations
- Schools' transactions
- Maintenance of the fixed asset register
- Process for preparing Group Accounts
- Weaknesses in IT general controls around user access and password security.

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Council did not meet this deadline. At the time of writing this report we have not yet received the draft DCT for audit. As such, the statutory deadline of 29 September 2017 was not met.

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 (value for money). This is based on the following reporting criterion:

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

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

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

We reported our risk assessment, which included use of resources significant risks, in the 2016/17 Audit Plan dated 7 March 2017. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS	The update to the Medium Term Financial Strategy (MTFS) to 2020/21 forecast further reductions in Government core grant funding and annual inflationary and pay award pressures. Significant levels of savings are required to balance the budget in the five years from 2016/17. As at February 2017 the savings requirement is £10.1 million in 2016/17, £12.4 million in 2017/18, £5.1 million in 2018/19, £4.6 million in 2019/20 and £1.7 million in 2020/21. The Council has a number of Invest to Save projects in progress to generate additional income going forward. These include a new leisure centre development and improvements to existing leisure centres, development of two hotels, development at the Thames Valley University site and expansion to schools. Our Audit Plan identified a potential risk that the MTFS may not adequately take account of the investment costs associated with major development projects and savings schemes and there may not be sufficient risk management and monitoring arrangements to ensure successful delivery of these projects.	**Overall conclusion regarding sustainable finances: MTFS** We are satisfied the Council has adequate arrangements for budget setting and whilst there were some weaknesses in budget monitoring and financial reporting in the year, the Council has retained its track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends. The MTFS reflects known savings and cost pressures and the key assumptions are not unreasonable. ***Contextual information*** The general fund balance and earmarked reserves act as a potential buffer against future risks, although the amount of headroom provided is fairly limited. There are good levels of HRA reserves to support the sustainability of the HRA over the medium term in line with the Council's HRA Business Plan, as approved by Cabinet in October 2016 and updated in April 2017. We are satisfied that the Collection Fund is being adequately monitored and managed. It is clear that the Council's capital programme has taken a long term view, aimed at using capital to generate additional revenue streams and thereby contribute to required savings targets. Achieving the required level of savings in the MTFS will be very challenging and will continue to require strong leadership and action by the Council. The Council understands the risks involved across financial planning. The MTFS and associated capital programme and treasury strategy take account of the investment costs associated with major development projects and savings schemes. The Council's Programme Management Office (PMO) maintains oversight of all significant projects to ensure that risks and issues are managed and progress maintained. The PMO also carries out lessons learned and benefits reviews for key projects. The total level of spend on temporary staff in 2016/17 is £8.8 million (£8.7 million in 2015/16), which includes Council owned schools. However, expenditure between the years is not directly comparable due to some services transferring in and out of the Council in both years. The Employment and Appeals Committee closely monitors temporary agency staffing levels, costs and progress in seeking permanent placements. During 2016/17 the corporate management team included, amongst others, the Chief Executive, four Directors, the Section 151 officer and the Monitoring Officer. Of these seven posts, six were filled by interims for at least part of the year. Action was taken to fill some of these posts with permanent placements. By 1 April 2017, the number of interims in the seven posts had reduced to three. The Chief Executive and Monitoring Officer remained interims at 31 March 2017.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS (continued)	As a starting point for assessing the effectiveness of the Council's arrangement for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.	**Detailed findings** ***General Fund*** Internal Audit's conclusion on the 2016/17 budget setting process was rated 'Reasonable' (meaning that there is reasonable assurance that controls are suitably designed and consistently applied, although there are issues that need to be addressed to ensure that the control framework is effective). However, Internal Audit identified a number of issues with budgetary control and reporting, in particular a lack of scrutiny and reporting on savings plans to senior management during the first half of the year, meaning that there was no effective oversight as to whether savings plans were being delivered. In addition there was a lack of evidence of discussion of financial reports within directorate meetings and only limited numbers of staff had completed budget holder training. As a result, Internal Audit's conclusion on budgetary control and financial reporting in 2016/17 was rated 'Partial' (meaning that there is partial assurance that the controls are suitably designed and consistently applied, however action is needed to strengthen the control framework to manage the identified risks). This was deterioration in the rating provided in this area compared to the prior year. Despite these weaknesses, the Council achieved £8.7 million (86%) of its £10.1 million savings programme for the year, which equates to 8.4% of its original net budget of £103.8 million. This compares to savings of £6.9 million (71%) achieved in 2015/16, which represented 6.6% of the original net budget requirement for that year. There was an overspend of £774,000 on Adult Social Care within the Wellbeing directorate in the year, mainly due to increasing levels of need for domiciliary care for existing clients. This overspend was offset by underspends in other areas, such as greater than planned investment income in the Regeneration, Housing and Resources directorate. The Council achieved its overall budget for the year and reported an underspend of £26,000 against its revised budget. The general fund balance as at 31 March 2017 is £8.1 million, consistent with the prior year. This is in excess of the £7.2 million minimum level recommended by the section 151 officer, which was based on 5% of the Council's net revenue budget plus £2 million for funding volatility. General fund earmarked reserves have decreased by £9 million, to £7.2 million at 31 March 2017. The decrease is partly due to a £5.6 million decrease in schools reserves, to £2.3 million, and funding of planned Council projects in accordance with the Council's priorities. ***Housing Revenue Account*** The Council reported a preliminary outturn of £0.5 million surplus against budget, due to lower loan interest rates and better than expected income generation. After taking account of audit adjustments to the financial statements and £8.5 million funding of capital expenditure by the HRA, the balance on the HRA decreased by £5.4 million, to £23.7 million at 31 March 2017. The balance on the major repairs reserve was £14 million at 31 March 2017, an increase of £1.9 million from the prior year.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS (continued)	As above: As a starting point for assessing the effectiveness of the Council's arrangement for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.	***Collection Fund*** The council tax balance in the Collection Fund was in deficit by £210,000 at 31 March 2017, of which the Council's share was £176,000. Management reported an in-year collection rate of 96.79% for 2016/17, which was higher than the in-year performance of 96.52% in the prior year but below the budgeted in-year collection rate of 97.1%. The non domestic rates balance in the Collection Fund was in deficit by £1.9 million at 31 March 2017, of which the Council's share was £934,000. This is mainly due to write offs of uncollectable amounts and charges for appeals against valuations. The in-year collection rate for 2016/17bwas 97.45%, which was above the in-year performance of 97.12% in the prior year and the target for the year. Collection rates on both council tax and non domestic rates have increased marginally each year over the past few years. Efforts are continuing to ensure easy payment methods are available and that late or non-payments are targeted. ***Capital*** The Council spent £112.5 million against its £133.8 million capital programme in the year (capital investment and revenue costs associated with capital assets), and the unspent balance has been re-profiled into future years. The slippage on capital schemes was less than in previous years. The expenditure was funded from capital receipts, grants and contributions, use of the major repairs reserve and HRA revenue contributions. Expenditure in the year included the purchase of new assets for investment purposes and expenditure on building affordable homes, which management expects will generate future revenue streams to offset future borrowing costs. It also included expansion and investment in schools, leisure facilities and street lighting, in furtherance of the Council's priorities.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS (continued)	We reviewed the reasonableness of the MTFS assumptions, including investment costs associated with Invest to Save initiatives and major savings schemes.	***Medium term financial strategy*** The MTFS adequately defines and records the headline assumptions made in the budget about the future funding of the Council, directorate pressures, the revenue impact of capital investment and savings targets. It shows how the Council plans to balance its finances over the medium term by delivering savings alongside projected growth in income from council tax and business rates. It highlights the key challenges that the Council faces in delivering services with reduced income from central Government grants. Over the medium term, the Council expects its revenue support grant to reduce from £18.5 million in 2016/17 to £6.1 million in 2020/21. It has assumed a council tax increase of 3% in 2018/19 (compared to 3.75% in 2016/17 and 4.71% in 2017/18) and then a 1% increase each year for the remaining period. The MTFS recognises the volatility in business rate income and has assumed an annual 1% growth rate from 2018/19. The level of savings required over the period of the MTFS is £12.4 million in 2017/18, £5.1 million in 2018/19, £4.6 million in 2019/20 and £1.7 million in 2020/21. The Council set a balanced budget for 2017/18 in February 2017 and specific schemes were identified for the full savings requirement. The savings summary reported to Cabinet in September 2017 indicates that £360,000 is unlikely to be implemented and a further £2.6 million of schemes are only expected to be delivered partially. This, together with overspends in a few areas, is putting pressure on directorate budgets. Management actions to address these pressures have resulted in £1.5 million of efficiencies being identified and further work is in progress to cover they remaining overspend. If this is not successful, management has forecast that the Council will overspend on its general fund revenue budget by £1.9 million in 2017/18. The Council has a track record of managing its shortfalls on the savings programme by achieving underspends in other areas.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS (continued)	We also reviewed the adequacy of risk management and monitoring arrangements underpinning major development projects.	***A new leisure centre development and improvements to existing leisure centres*** In February 2017 work started on the Slough Ice Arena site in Montem Lane which is being refurbished and extended. Work to demolish The Centre on Farnham Road in readiness for a new leisure centre also begun during 2016/17. The work is being undertaken by Slough Urban Renewal. There are risk registers in place for each of these projects, which are being monitored through the Leisure Strategy Board. The overall leisure strategy programme is one of a number of projects being managed through the PMO and updates on these projects are also regularly reported to the Corporate Management Team, including key risks. ***Development of two hotels in the centre of town*** In July 2016 the Council approved the development of two hotels and a restaurant on the old library site, and agreed the Council should enter into an Agreement to Lease with a hotel operator. The estimated cost was £30.5 million for the hotels and £1.7 million for the restaurant, which will be funded from borrowing. The financial proposal included estimated borrowing costs, operator set up costs and lease income, and showed how the net surplus before overheads is expected to increase in the long term. Cabinet received update reports on the project in September 2016 and March 2017, including an assessment of the key risks. In September it was agreed that the scheme should also include 60 residential apartments and that the entire development will be undertaken by Slough Urban Renewal. A final business case is expected to be presented to Cabinet before the end of 2017/18. Management expects the scheme to generate a solid long-term revenue stream, consisting of a base rent and performance turnover rent, which will more than cover the costs of borrowing for the scheme at the prevailing Public Works Loan Board rates. The Council will also retain and enhance the capital value of a key asset in the centre of town.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: MTFS (continued)	As above: We reviewed the adequacy of risk management and monitoring arrangements underpinning major development projects.	***Development at the Thames Valley University site*** In 2017/18 the Council spent £8 million in acquiring the land for the former Thames Valley University (TVU), a major development site in the heart of Slough which will be used to develop new homes, offices, shops and leisure facilities. The approved capital programme includes a further £8 million to be spent in each of the two subsequent years for the land purchase. The aim of the project is to attract, retain and grow businesses and investment to provide jobs and opportunities for Slough's residents. ***Expansion to schools*** The approved capital programme includes significant planned investment for school building improvements, as part of the Council's school places strategy and goal of creating new school places and improved learning spaces for children in Slough. In 2016/17, £11.5 million was spent on expansion of primary schools, special education needs resources, secondary schools and special schools, against original budget of £13.6 million. A further £27.1 million has been approved on these expansions for 2017/18. The overall schools placement project is being managed as a 'Gold' project and overseen by the PMO, due to the high significance of this project within the Council. Updates on progress and key risks are regularly reported to the Corporate Management Team.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances: Interim staff	There have been a number of changes in senior managers during the year and a number of key posts have been covered by costly interims. Our Audit Plan identified a risk that the Council may not be planning, organising and developing its workforce effectively, and that it may not be securing value for money from the use of interims. We have reviewed the Council's use of contractors and agency staff and its arrangements to substantively fill vacant posts.	**Overall conclusion regarding sustainable finances: interim staff** Whilst the Council's spend on interim staff in senior posts was high during 2016/17, we have concluded that there were reasons for this and action was taken to try to fill the posts permanently where necessary. **Detailed findings** The total level of spend on temporary staff in 2016/17 is £8.8 million (£8.7 million in 2015/16), which includes Council owned schools. However, expenditure between the years is not directly comparable due to some services transferring in and out of the Council in both years. The Employment and Appeals Committee closely monitors temporary agency staffing levels, costs and progress in seeking permanent placements. During 2016/17 the corporate management team included, amongst others, the Chief Executive, four Directors, the Section 151 officer and the Monitoring Officer. Of these seven posts, six were filled by interims for at least part of the year. Action was taken to fill some of these posts with permanent placements. By 1 April 2017, the number of interims in the seven posts had reduced to three. The Chief Executive and Monitoring Officer remained interims at 31 March 2017. The appointment process for a permanent Chief Executive was approved by the Council in January 2017, the same meeting at which the Interim Chief Executive was appointed. The interview process took place in October 2017 but the appointment was not approved and a new recruitment process is planned. We note that the post was originally only advertised in July 2017. We are informed this was mainly due to factors outside of the Council's control. However, it remains the responsibility of the Council to ensure that interim posts for senior positions are filled within a reasonable timeframe. There have been few changes in the Monitoring Officer over the past few years, with the post being covered by three different individuals across 2015/16 and 2016/17, and a significant number of complex issues for the Interim Monitoring Officer to deal with during 2016/17 and to date. As a result, the Council's spend on this role has been higher than normal. The Council is in the process of recruiting a permanent placement for this role as part of a management restructuring exercise noted below. Our consideration of the impact of the above on governance arrangements is considered further below.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Informed decision making: System of internal control and governance arrangements	We are aware that there are a number of areas of weakness in the Council's system of internal control and governance arrangements, as evidenced by Internal Audit issuing a number of negative assurance opinions in 2016/17. These include reviews in budgetary control, information governance, business continuity and commissioning. Internal Audit also concluded for 2016/17 that 'Little' progress had been made in implementing their previous recommendations. Our Audit Plan identified a risk that the Council may not be acting in the public interest through demonstrating and applying the principles and values of sound governance that are required to support informed decision making. We have considered the potential impact on our audit of weaknesses in the system of internal control identified by Internal Audit.	**Overall conclusion regarding informed decision making** Due to weaknesses in the system of internal control and 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 during 2016/17, we are proposing to qualify our use of resources conclusion. The Council had not during the year demonstrated or applied the principles and values of sound governance and internal control to support informed decision making. **Conclusion regarding our use of additional reporting powers** We are satisfied that management has acknowledged weaknesses in its governance arrangements in its 2016/17 Annual Governance Statement, to be published as part of its 2016/17 Statement of Accounts, and that action is being taken to address these issues during 2017/18. Specifically, in respect of necessary improvements to the preparation of the financial statements, including supporting working papers, we have taken account of ongoing activity to increase the level of resources in the finance team and an additional layer of quality control review by management. We have therefore not sought to exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 in respect of the 2016/17 audit. However, we will closely monitor developments in this area. ***Detailed findings*** ***Internal Audit's conclusions*** The Head of Internal Audit's opinion for 2016/17 is that "There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective." This negative conclusion was as a result of Internal Audit issuing four 'No assurance' and nine 'Partial assurance' reports in respect of the year. These included the following cross-cutting areas and key findings: • **Information Governance:** Lack of robust policies and procedures in place to support a robust information governance framework within the Council, and as a consequence of this a number of key information governance requirements, such as data flow mapping were not being undertaken effectively across the Council. • **Risk Management:** Lack of oversight of risks at a directorate level due to the absence of an effective risk management system, together with the lack of scrutiny of the corporate risk register at Cabinet level during 2016. In addition to this the audit identified that there was no joined up process between the Corporate Risk Register and Project level risks or training provided to staff on the use of the new risk management system.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Informed decision making: System of internal control and governance arrangements (continued)	As above: We have considered the potential impact on our audit of weaknesses in the system of internal control identified by Internal Audit.	• **Budgetary control:** Lack of scrutiny and reporting on savings plans during the first half of the year and therefore there was no effective oversight as to whether savings plans had been delivered. In addition there was a lack of evidence of discussion of financial reports within directorate meetings and only limited numbers of staff had completed budget holder training. • **Compliance with the Local Government Transparency Code:** In a number of areas information which must be published by the Council had not been published and in some instances the information that was published was out of date. Internal Audit's follow up of recommendations raised in previous years found that the Council had made poor progress in addressing management actions, including a number of high priority actions, although we have noted that management action was taken towards the latter part of 2016/17 to ensure that the implementation of audit recommendations is now monitored more effectively.
	We are aware that a project is in place to update the Council's Constitution and a number of Human Resources policies that have not been reviewed and updated for a number of years. We considered the Council's processes to address these issues during 2016/17.	***Constitution and supporting policies and procedure notes*** The Council establishes the Member Panel on the Constitution at the beginning of each year to keep the Constitution under review. During 2016/17 the Member Panel on the Constitution met on several occasions to identify key areas for revision. Amendments were approved at meetings of the full Council in June 2016, September 2016 and January 2017. These amendments included updates to the Scheme of Delegation to reflect current legislation and the role of the Caldicott Guardian. Work on reviewing other parts of the Constitution has continued in 2017/18. Amendments to the Constitution approved by the Council in May 2017 included changes to contract procedures rules; arrangements for the dismissal of the statutory officers, including their rights in disciplinary proceedings; and a revised Local Code of Conduct for Employees that spelt out the Nolan principles for good governance. Revised Financial Procedural Rules and Councillors' Code of Conduct were approved by the Audit and Corporate Governance Committee in October 2017. Updates to recruitment procedures to cover internal applicants and reference to Disclosure and Barring Service requirements were made during 2016/17. Other Human Resources (HR) related policies are being reviewed and updated in 2017/18. The Employment and Appeals Committee is considering revised Disciplinary Procedures for statutory officers at its meeting in October 2017.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Informed decision making: System of internal control and governance arrangements (continued)	We have also considered the potential impact on our audit of weaknesses in other governance issues of which we are aware. As part of this, we considered the Council's processes to address these issues during 2016/17.	From the amendments being made to the Constitution and associated policies in 2017/18 and to date, it appears that these documents were not sufficiently robust during 2016/17. It is important that policies and procedures are kept up to date, particularly where there are interim officers in place and therefore corporate memory may be an issue. It is also important that any lessons learnt from recent application of HR policies are taken into account in updating these policies, including ensuring that any areas open to interpretation are set out as clearly as possible. We have concluded that some weaknesses in HR related procedures during 2016/17, including the exit procedure for the previous Chief Executive and the removal of the statutory role from the previous Monitoring Officer, were partly due to a combination of policies being out of date, not clear enough or not appropriately applied. ***Changes in senior staff*** At a meeting of the full Council in September 2016 it was acknowledged that the high number of interim directors and vacancies may have led to deterioration in some areas of service delivery. It was agreed that the Council needed to urgently review the structure of the senior management team to drive permanent employment into key senior posts and deliver value for money, transparency, stability and quality services. As reported above, the Council consulted on changes to its management structure during 2017/18. The consultation closed in August 2017 and the new structure was confirmed. It consists of the Chief Executive, five Directors leading on five business areas, and 24 Service Leads. A new recruitment process for the Chief Executive is in place. Formal interviews for the five Directors took place in September and by 2 October 2017 four of the five Director posts were filled by permanent officers. Interviews for the Service Leads took place in October 2017. The statutory role of the Section 151 officer now falls to the Director of Finance and Resources and the Monitoring Officer role will fall to the Service Lead for Governance. Overall, 2016/17 was a year of great instability for the Council and this ultimately had an impact on overall governance arrangements. The new management structure should help to bring stability and improved confidence in management capability and service delivery going forward.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Informed decision making: System of internal control and governance arrangements (continued)	As above: We have also considered the potential impact on our audit of weaknesses in other governance issues of which we are aware. As part of this, we considered the Council's processes to address these issues during 2016/17.	***Whistleblowing procedures, complaints and requests for information*** Officers have received a significant number of whistleblowing complaints and requests for information during 2016/17 and to date, including a few high profile anonymous whistleblowing complaints. The Audit and Corporate Governance Committee periodically receives reports on complaints regarding members' compliance with the Code of Conduct. At its meeting in September 2016, members were concerned that there was a loss of trail for accessing complaints being investigated by the previous Monitoring officer and it was agreed that the processes and systems for recording and reporting on complaints activity needed to be substantially strengthened. The trail was subsequently found and a more detailed report on Code of Conduct complaints, as well as a report on other whistleblowing complaints, was presented to the Committee in October 2017. A Deputy Monitoring Officer was also appointed during 2016/17, to assist the Interim Monitoring Officer in investigating the high level of complaints being received. The Council's whistleblowing procedures were reviewed by the Audit and Corporate Governance Committee in March 2017 and a revised Confidential Whistleblowing Code was approved by Council in May 2017. The previous policy did not clearly indicate who complaints should be made to if they are about both the Monitoring Officer and the Chief Executive. We are aware of a breach of confidentiality in a whistleblowing complaint during the year and we are informed that action was taken internally to address the issue to help to prevent re-occurrence of such a breach going forward. We are also aware of some dissatisfaction with the timeliness of management's responses to requests for information, the information provided, and perceived conflicts of interest in investigations. These issues have resulted in further complaints, attracted negative publicity for the Council and have undermined confidence in the Council's procedures for dealing with whistleblowing complaints and requests for information. Officers and members need to work at embedding robust procedures for dealing with whistleblowing complaints and other requests for information, to provide stronger assurance that the confidentiality of the complainant will be protected, where necessary, and to build confidence in these procedures.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Preparation of the Statement of Accounts	Our audit of the 2015/16 financial statements, which were prepared during 2016/17, identified a large number of misstatements which had to be amended in the final financial statements. We have taken this into account in considering the Council's system of internal control and governance arrangements.	Our audit of the 2015/16 financial statements identified one material misstatement in the primary statements, five notes that were materially misstated and in excess of twenty further non-trivial adjustments. We also identified weaknesses in the quality of the underlying working papers. As reported above, our audit of the 2016/17 financial statements has identified continuing significant weaknesses in the financial statement preparation process and supporting working papers.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Partnership working: Children's social care services	Our 2015/16 use of resources conclusion was qualified because of significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, and insufficient monitoring of contractual performance of the service after it transferred to Slough Children's Services Trust on 1 October 2016. Our Audit Plan 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 2016/17, in managing the contract with the Trust. We have gained an understanding of action taken by the Council and Slough Children's Services Trust during 2016/17 to address Ofsted's recommendations and sought evidence of improved processes.	**Overall conclusion regarding partnership working** Whilst we are satisfied that there have been improvements in the joint working and performance monitoring arrangements in place between the Council and the Trust during 2016/17, Ofsted has 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. We are therefore proposing to qualify our use of resources conclusion. **Detailed findings** In our 2015/16 Audit Completion Report, issued in November 2016, we reported that we could see evidence of improved collaborative working between the Council and the Trust since 31 March 2016, in developing a Pledge, Corporate Parenting Strategy, action plan and scorecard. In addition, the Department for Education's decision in September 2016 to revoke the Second Direction on the Council was indicative of improved joint working between the Council and the Trust during 2016/17. In August 2016 the Council and the Trust established a Joint Improvement Board, to develop and oversee the delivery of the Ofsted Delivery Plan. The Board meets monthly and is chaired by the Council's Chief Executive, with the Trust's Chief Executive acting as vice chair and the Department for Education attending as an observer. At each meeting the Board discusses performance and receives an update on progress against the actions set out in the Ofsted Delivery Plan. A report to Cabinet in June 2017 provided an annual update on the work of the Trust and progress made in improving services. The report noted that significant inroads have been made in establishing a permanent workforce within the Trust. The proportion of agency workers has fallen from 33% in March 2016 to 17% as of April 2017. Another key development over the latter half of 2016 was that the Trust introduced a new model of social work practice, moving the service away from conventional teams into small hubs made up of professionals from different disciplines who work directly with children and families. The report also noted that the Trust monitors Key Performance Indicators and these show improving performance in eight key areas.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Partnership working: Children's social care services	As above: We have sought evidence of improved processes.	Ofsted has carried out four monitoring visits since the service was judged as 'inadequate' in February 2016. The report published following its June 2017 visit concluded that the comprehensive restructuring of the teams that support children in need of help and protection is beginning to have a positive impact on the quality of service that they receive. Trust and Council leaders have continued to work hard to secure a more permanent workforce and the number of agency staff and staff turnover rates are steadily reducing. The Trust and the Council continue to work together cooperatively towards shared goals. Once children are transferred to the child protection and child in need hubs, they receive a better and safer service than at the time of the inspection in February 2016. However, the practice improvements have largely been achieved in the first quarter of 2017/18 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. The report published after the September 2017 visit concluded that, whilst leaders have taken effective steps to strengthen some aspects of the children looked after service, the pace of improvement has not been swift enough in all areas of practice.

USE OF RESOURCES CONCLUSION
On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2016, we have been unable to satisfy ourselves that, in all significant respects, Slough Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

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

ADJUSTED AUDIT DIFFERENCES

We identified the following material misstatements in the primary financial statements, which management has amended:

- £55.7 million understatement of income and expenditure as a result of housing benefit subsidy income being incorrectly netted off against housing benefit expenditure
- £10.265 million understatement of property plant and equipment due to the two blocks of flats being incorrectly valued as council dwellings rather than surplus assets awaiting demolition, with a corresponding understatement of the revaluation reserve by £9.968 million and an understatement of the reversal of previous loss in the CIES by £297,000
- £8.1 million overstatement of debtors and creditors as a result of a prior year audit adjustment in respect of Collection Fund balances reversing in the current year.

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

- Cash Flow Statement and associated notes
- Housing Revenue Account notes
- Expenditure and funding analysis and associated notes
- Property plant and equipment note
- Financial instruments notes
- Gain/(loss) on non-current assets disclosure
- Senior officers' remuneration note and exit packages disclosure
- Related parties note.

These amendments, together with the other non-material amendments that management has processed in the revised financial statements, have decreased the deficit on the provision of services by £3.586 million, from £36.590 million to £33.004 million.

UNADJUSTED AUDIT DIFFERENCES

There are 12 unadjusted audit differences identified by our audit work which, when combined with the impact of brought forward unadjusted errors, would if corrected decrease the deficit on the provision of services by £2.165 million. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on the provision of services before adjustments	33,004				
DR Creditors – Other local authorities				1,127	
CR Cash and cash equivalents					(1,127)
(1) Precept payments to Police Authority and Fire incorrectly allocated to a bank suspense account instead of creditors (factual misstatement)					
DR Cash and cash equivalents				291	
CR Creditors – Other entities and individuals					(291)
(2) Unreconciled net credit balance between the 'data migration' account and a 'bank suspense' account that should net off to zero, which suggests that bank balances are understated by this amount (estimated misstatement)					
Dr Debtors – NHS bodies				159	
Cr Creditors – NHS bodies					(159)
(3) Net debit balances in respect of NHS bodies within creditors, which should be reclassified to debtors (factual misstatement)					

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Net assets (combination of cash/debtors/creditors)				257	
CR Income – Wellbeing (including schools)			(1,465)		
CR Expenditure – Wellbeing (including schools)			(1,754)		
DR Expenditure – Wellbeing (including schools)		2,962			
(4) Misstatement due to incorrect consolidation of schools' balances and transactions (estimated misstatement)	(257)				
DR Expenditure (Depreciation)	135	135			
CR Property, plant and equipment – accumulated depreciation					(135)
DR Capital Adjustment Account				135	
CR General Fund (through the Movement in Reserves Statement)					(135)
(5) Misstatement due to depreciation being omitted on four assets incorrectly recorded as having nil useful economic lives (estimated misstatement)					

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Property, plant and equipment – Council dwellings				293	
DR Property, plant and equipment – Other land and buildings				469	
CR Revaluation reserve					(381)
CR Expenditure (Reversal of impairment)	(381)		(381)		
DR General Fund (through the Movement in Reserves Statement)				381	
CR Capital adjustment account					(381)
(6) **Misstatement due to incorrect posting of property valuations from the valuer's certificate (estimated misstatement)**					
DR Short term debtors				1,164	
CR Long term debtor					(1,164)
(7) Misclassification of overage income receivable within long term debtors as the developer has agreed to pay it within the next year (factual misstatement)					

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Taxation and non-specific grant income – NDR income	220	220			
CR Provisions – Non domestic rates appeals					(220)
DR Collection Fund Adjustment Account				220	
CR General Fund (through the Movement in Reserves Statement)					(220)
(8) Understatement of the non domestic rates appeals provision (estimated misstatement)					
DR Expenditure – Financing and investment interest payable		223			
CR Expenditure – Wellbeing			(223)		
(9) Misclassification of expenditure relating to the PFI liability as actual unitary payments invoiced for the year exceeds the expected amount in the PFI model (factual misstatement)					
DR Income - Customer and community services		488			
CR Expenditure - Customer and community services			(488)		
(10) Overstatement of income and expenditure due to expenditure recharges being accounted for on a gross basis (estimated misstatement)					

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Non domestic rates income		814			
CR Non-ring fenced government grants			(814)		
(11) Misclassification of grant income					
DR Short-term debtors				2,266	
CR Income	(2,266)		(2,266)		
(12) Potential understatement of Collection Fund debtors and income due to balances not being clearly identifiable in the debtors analysis					
TOTAL CURRENT YEAR UNADJUSTED AUDIT DIFFERENCES	(2,549)	4,842	(7,391)	6,762	(4,213)
IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (see following pages)	384	2,843	(2,459)	3,463	(3,847)
TOTAL UNADJUSTED AUDIT DIFFERENCES	(2,165)	7,685	(9,850)	10,225	(8,060)
Deficit on provision of services if adjustments accounted for	30,839				

APPENDIX I: AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS
The following unadjusted disclosure matters were noted:
Note 34. Dedicated schools grant The amount recorded in the note for final DSG income for 2016/17 before academies recoupment allocation was £330,000 more than the amount notified by the Education and Skills Funding Agency.
Note 42. Nature and extent of risks arising from financial instruments The maturity analysis for financial liabilities does not meet the Code's requirements for financial instrument disclosures as it has been prepared on the basis of amortised cost rather than undiscounted contractual cash flows. In addition, the Code requires that authorities disclose an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired. The Council has not disclosed this information because it cannot readily produce it.

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Reserves (Revaluation reserve / Capital Adjustment Account)				502	
CR Property, plant and equipment - Other land and buildings					(502)
DR Intangibles - software licences				502	
CR Property, plant and equipment					(502)
a) Impact of brought forward misstatements from 2014/15					
DR Schools Income and Expenditure		851			
CR Opening schools reserves					(851)
b) Overstatement of current year income due to net understatement of prior year income in relation to schools (estimated misstatement)	851				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£’000	£’000	£’000	£’000	£’000
DR Opening general fund				500	
CR Income			(500)		
c) Understatement of current year income due to overstatement of prior year adult social care income relating to continuing healthcare claims (judgemental misstatement)	(500)				
DR Expenditure – Local authority housing		275			
Cr Opening Capital Adjustment Account					(275)
d) Understatement of current year expenditure due to overstatement of prior year expenditure as a result of an estimated error in the carrying value of council dwellings (estimated misstatement).	275				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Opening Collection fund adjustment account				1,083	
CR Taxation and non-specific grant income – Non domestic rates income			(1,083)		
e) Understatement of current year income as a result of overstatement of prior year income the non domestic rates appeals provision (Council's share) (estimated misstatement)	(1,083)				
DR Opening Collection fund adjustment account				876	
CR Council tax income in the CIES			(876)		
f) Understatement of current year income due to an overstatement of prior year council tax income in the CIES (factual misstatement)	(876)				
DR Non domestic rate income in the CIES		525			
CR Opening Collection fund adjustment account					(525)
g) Overstatement of current year income due to an understatement of prior year non domestic rates income in the CIES (factual misstatement)	525				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Expenditure – loss on disposals		882			
CR Opening Capital Adjustment Account					(882)
h) Understatement of current year expenditure due to an overstatement of prior year loss on disposals (factual misstatement)	882				
DR Income		310			
CR Opening General Fund					(310)
i) Overstatement of current year income due to an understatement of prior year income in the CIES relating to incorrect coding of cash transactions (factual misstatement)	310				
TOTAL IMPACT ON CURRENT YEAR DEFICIT	384	2,843	(2,459)	3,463	(3,847)

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Quality of audit working papers	There have been some improvements in terms of availability of working papers at the start of the audit. However, as in the prior year, there were issues with the accuracy of the working papers. There is still significant progress to be made in this area. Insufficient working papers to support the balances and totals within the financial statements could result in material undetected errors.	Management should carry out a critical review of the outcomes of the 2016/17 audit to identify the areas where further improvement needs to be made in producing effective working papers. This will be of particular importance given the reduced timeframe for accounts production and audit in 2017/18.	We will address this recommendation once the 2016/17 financial statements are certified.	Service lead - Finance	January 2018
Financial Statements preparation	A number of the issues identified in the 2016/17 audit in terms of accounts production are reoccurring issues from prior year audits. Resolving reoccurring issues lengthens the audit process.	Management should: • Review the level of resources available to prepare the draft financial statements • Review the draft financial statements and supporting workings to ensure that previously reported errors are not repeated • Ensure that immaterial and irrelevant disclosures are removed from the financial statements.	Capacity in the finance team is being addressed as part of a team restructure in 2017/18. This should enable us to place greater focus on producing the financial statements and supporting working papers.	Service lead - Finance	May 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Mapping of debtors and creditors	As in the prior year management was unable to provide us with a working paper that clearly mapped debtor and creditor balances to the disclosures in the financial statements and we identified a number of misclassifications. Incorrect working papers to support the mapping of balances within the financial statements could result in material errors. Material errors have been found in areas where adequate working papers were not provided.	Management should produce a working paper that maps all debtor and creditor balances into the appropriate classifications and reallocates any debtors in credit and creditors in debit balances. This working paper will then assist management in preparing financial statements without material misstatement.	Accepted. This will be done as part of the preparations for faster close of the 2017/18 financial statements.	Service lead - Finance	May 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Bank reconciliations	As in the prior year the Council was initially unable to provide us with a breakdown of the reconciling items within the bank reconciliations. There were a large number of reconciling items that had not been correctly allocated by the year-end. A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences. The cash balance could be materially misstated if reconciling items are not appropriate timing differences.	Management should review processes for preparing cash and bank analyses and supporting bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the monthly bank reconciliations.	Accepted. We will address this recommendation once the 2016/17 financial statements are certified.	Service lead - Finance	January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Schools' transactions	As in the prior year the Council's arrangements for consolidating information from schools into the CIES (and the balance sheet) require significant improvement. Our review of the working papers for 2016/17 found that there is insufficient reconciliation between schools transactions posted to the general ledger and the returns received from schools. In the absence of effective controls for reconciling schools balances, there is a significant risk of material misstatement in the accounts.	Management should ensure that schools' transactions posted to the general ledger are reconciled to underlying schools returns. A complete review of the process for consolidating schools transactions into the accounts should be carried out.	Accepted. This has already commenced.	Service lead - Finance	January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Maintenance of the fixed asset register	Our audit identified a number of properties which had been demolished prior to the year-end but not removed from the fixed asset register, or incorrectly classified in the fixed asset register. Errors in the fixed asset register could result in a material misstatement in the financial statements. Also the Council could be paying for valuation services on properties it does not own. In addition, there is no formal review carried out by management on the useful economic lives of non-current assets, as required by accounting standards. This has been raised in previous years. Inaccurate useful economic lives may result in material missatement of non-current assets.	Management should engage with the property management team to perform an annual review of assets to identify: • Any assets which are no longer held by the Council (these should be derecognised) • Any assets that have changed use (these should be reclassified). Management should reconcile the property valuer's valuations to the fixed asset register. A formal review of the useful economic lives of the Council's non-current assets should also be carried out each year.	Accepted.	Group accountant - Capital and treasury management	April 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Process for preparing Group Accounts	Inadequate financial information was provided in relation to SUR LLP and its subsidiaries and there was no clear assessment as to the materiality of the Council's interest in the joint venture. We believe these issues stemmed from inadequate communication with the joint venture partner. Failure to appropriately engage will result in additional time being spent unnecessarily and incorrect conclusions being drawn from incomplete information.	From discussions with the Council and the joint venture partner, it is possible that the Council's interest in SUR LLP and its subsidiaries will be material in 2017/18. Given that the accounts are to be certified by 31 July going forward, the Council should engage early with its joint venture partner so that the necessary information is received in sufficient time for preparation of the Council's Statement of Accounts.	Accepted. Strategic meetings with SUR LLP are held by the Director of Finance and Resources and the Service Lead - Finance.	Service lead - Finance	January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
User access	Review of users access and access rights in respect of, Academy, Capita and Agresso noted that reviews on users' access rights were not periodically performed by management. There is a risk is that existing users may have more access than required for their role. This reduces segregation of duties and increases the risk of there being unauthorised changes to key data. There is also a risk that leaver accounts may still remain active on the system. This increases the risk that unauthorised access via this open account may occur which may result in incorrect and unapproved changes to key data.	The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process	Accepted.	Service lead - IT and governance	January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Password security	We reviewed the password secuity parameters for Academy, CIPFA Asset Management System and Agresso. The password settings for these systems were deemed to be weak as a result of: • No minimum password length • Password duration not set • Password history not enabled. There is a risk is that user passwords can be guessed or become known over time to other users. As a result, user accounts are at an increased risk of being used by persons other than the legitimate account owner. Crystallisation of this risk may result in a material misstatement or fraud because user accounts may be used to process unauthorised, fraudulent or inaccurate transactions, and bypass controls designed or required to ensure segregation of duties.	Password settings should be updated to ensure that: • Password duration is at maximum of 30 days • Password length should be a minimum of 8 characters • Password history settings enforced.	Accepted. This is in progress.	Service lead - IT and governance	January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Faster close	From 2017/18 the deadline for preparation of the draft financial statements will be 31 May, a month earlier than the deadline in previous years. The deadline for approval and publication of the final audited financial statements will be brought foward from 30 September to 31 July. We understand that the Council will be using the CIPFA Red Button approach to facilitate its accounts closedown. It is important that the Council has adequate procedures in place to manage the closedown project. Without a detailed project plan involving all stakeholders, there is a risk that the faster close timetable will not be achieved.	Management should generate a detailed understanding of the mapping structure on which its Statement of Accounts is generated. We encourage the Council to proactively engage with its financial services hub and the audit team to develop a plan for faster close so that the earlier deadline can be achieved.	Agreed. A new finance structure and reporting lines is being implemented, which will strengthen capacity. Initial discussions with our external auditors have taken place and detailed plans will be developed.	Service lead - Finance	January 2018

APPENDIX III: MATERIALITY

MATERIALITY – FINAL AND PLANNING

	FINAL	PLANNING
Council Materiality	6,700,000	7,800,000
Clearly trivial threshold	134,000	156,000

Planning materiality of £7,800,000 was based on 2% of prior year gross expenditure.

When we received the draft financial statements, we revised our materiality down to 1.75% of gross expenditure per the unaudited financial statements, as we were aware of increased interest in the Council's financial statements by members of the public. The reduced percentage was not out of line with that applied at other unitary authorities that BDO audits.

APPENDIX IV: INDEPENDENCE

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 engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved
JANINE COMBRINCK – Audit engagement lead	2 years as engagement lead and 3 years as project manager
NICK BERNSTEIN – Audit manager	1 year as project manager
MICHAEL ASARE-BEDIAKO – Assistant manager	1 year as assistant manager and 2 years as audit senior

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

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit	TBC	127,523	152,758	The 2015/16 fee included £25,235 additional fees for cost overruns incurred on the financial statements audit. We have 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.
Certification of Housing benefits subsidy claim	30,000	20,625	20,000	Our fee for the certification of the 2016/17 housing benefits subsidy claim increased from £20,625 (the indicative fee set by Public Sector Audit Appointments Limited) to £30,000 as we carried out, at management's request, the additional '40+ testing' normally completed by the Council.
TOTAL AUDIT AND CERTIFICATION FEES	**TBC**	**148,148**	**172,758**	
Fees for audit related services:				
• Certification of the Pooling of Housing Capital Receipts return	1,800	1,800	1,800	
• Certification of the Teachers' Pension return	3,535	3,535	3,535	
Fees for other non-audit services				
• None	-	-	-	
TOTAL FEES	**TBC**	**153,483**	**178,093**	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

XX December 2017

Dear Sirs

Financial statements of Slough Borough Council for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance & Resources (Section 151) has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments Limited, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

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

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

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

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

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

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

a) Pension fund assumptions

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

- Rate of inflation (CPI): 3.6%
- Rate of increase in salaries: 4.2%
- Rate of increase in pensions: 2.7%
- Rate of discounting scheme liabilities: 2.8%
- Take up option to convert the annual pension into retirement grant:
    - Pre 31 March 2008: 50%
    - Post April 2008: 50%

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

b) Valuation of council dwellings, other land and buildings, surplus assets, investment properties and their constituent components

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of property, plant and equipment, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and are not materially misstated at year end. In particular, we are satisfied that:

- Council dwellings revalued in the year are based on existing use prices discounted for social housing
- Specialised operational land and buildings revalued in the year where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings revalued in the year are based on existing use prices.

We are satisfied that surplus assets and investment properties have been appropriately valued at fair value, based on highest and best use.

We are also satisfied that properties not revalued in the year are not materially misstated at year end.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax receivables, business rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

APPENDIX VI: DRAFT REPRESENTATION LETTER

d) Non domestic rate appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historic appeals are consistent with those advised by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2017 are consistent with our knowledge of the business.

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

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

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

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Neil Wilcox

Director of Finance & Resources (Section 151)

XX December 2017

Councillor Chaudhry

Signed on behalf of the Audit & Corporate Governance Committee

XX December 2017

APPENDIX VII: DRAFT AUDITOR'S REPORT

Opinion on the Council's financial statements

We have audited the financial statements of Slough Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Slough Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance & Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance & Resources is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 the financial statements 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 made by the Director of Finance & Resources; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Slough Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

APPENDIX VII: DRAFT AUDITOR'S REPORT

Opinion on other matters

In our opinion, the other information published together with the audited financial statements is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE in or is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

APPENDIX VII: DRAFT AUDITOR'S REPORT

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2016, as to whether in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis of adverse conclusion

Informed decision making

The Head of Internal Audit's opinion for 2016/17 is that "There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective." This negative conclusion was as a result of weaknesses identified in a number of key areas which included the following:

- Information Governance: The Council did not have sufficient policies and procedures in place to support a robust information governance framework within the Council, and as a consequence of this a number of key information governance requirements were not undertaken effectively across the Council.
- Risk Management: There was a lack of oversight of risks at a directorate level due to the absence of an effective risk management system, and insufficient scrutiny of the corporate risk register at Cabinet level during 2016.
- Budgetary control: There was a lack of scrutiny and reporting on savings plans during the first half of the year and therefore there was no effective oversight as to whether savings plans had been delivered.
- Compliance with the Local Government Transparency Code: The Council failed to ensure that information that must be published by the Council was published on a timely basis.

We concur with the above findings.

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In addition, we identified the following weaknesses in governance arrangements during 2016/17:

- Constitution and associated policies: The Council failed to ensure that the Constitution and associated policies were sufficiently up to date and robust. Weaknesses in Human Resources procedures during the year were partly due to policies being out of date, not clear enough or not appropriately applied.
- Whistleblowing procedures and complaints: The Council's whistleblowing policy and procedures for dealing with whistleblowing complaints were not sufficiently robust to protect confidentiality and instil confidence in the process. As referred to in the Annual Governance Statement, there were data breaches in respect of a confidential investigation report and a confidential whistleblowing complaint during the year and the Council is considering its reporting responsibilities in respect of these issues. In addition, systems for reporting on complaints were inadequate during 2016/17.
- Preparation of the Statement of Accounts: Our audit of the 2015/16 financial statements, which were prepared during 2016/17, identified a large number of misstatements which had to be amended in the final financial statements. This included one material misstatement in the primary statements, five notes that were materially misstated and in excess of twenty further non-trivial adjustments. We also identified weaknesses in the quality of the underlying working papers. Our audit of the 2016/17 financial statements has identified continuing weaknesses in the financial statement preparation process.

As a result of the above issues, we concluded that the Council had not during the year demonstrated or applied the principles and values of sound governance and internal control. These issues are evidence of significant weaknesses in proper arrangements to support informed decision making.

Working with partners and other third parties

Following significant weaknesses identified by Ofsted in their inspection of children's social care services in Slough in 2011 and 2013 and a direction issued to Slough Borough Council on 7 October 2014 by the Secretary of State for Education, the responsibility for children's social care services in Slough were transferred to Slough Children's Services Trust ('the Trust'), a company limited by guarantee, on 1 October 2015.

In February 2016 Ofsted completed a further review of children's social care services in Slough, and judged the services it reviewed as inadequate overall.

Ofsted has carried out four monitoring visits since the service was judged as inadequate in February 2016. The report published following its June 2017 visit noted that there had been practice improvements but these had largely been achieved in the first quarter of 2017/18 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.

In seeking to satisfy ourselves that the Council has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered the Council's arrangements for improving services and outcomes in children's social care services during the year ended 31 March 2017, in working in partnership with the Trust.

We concluded that the Council's arrangements for ensuring that sufficient action was taken by the Trust to address weaknesses identified by Ofsted during 2015/16 were inadequate, as the pace of improvement was not swift enough in all areas of practice.

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Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2016, we have been unable to satisfy ourselves that, in all significant respects, Slough Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this matter does not have a material effect on the financial statements or on our value for money conclusion.

[*Signature*]

Janine Combrinck

For and on behalf of BDO LLP, Appointed Auditor

London, UK

[*Date*]

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