

Date of issue: Tuesday, 17 July 2018

<b>MEETING</b>	<b>AUDIT AND CORPORATE GOVERNANCE COMMITTEE</b>
<b>DATE AND TIME:</b>	WEDNESDAY, 18TH JULY, 2018 AT 6.30 PM
<b>VENUE:</b>	VENUS SUITE 3, ST MARTINS PLACE, 51 BATH ROAD, SLOUGH, BERKSHIRE, SL1 3UF
<b>DEMOCRATIC SERVICES OFFICER: (for all enquiries)</b>	SHABANA KAUSER 01753 787503

### **SUPPLEMENTARY PAPERS II**

The following Papers have been added to the agenda for the above meeting:-

\* Item 8 was not available for publication with the rest of the agenda.

#### **PART 1**

<b><u>AGENDA ITEM</u></b>	<b><u>REPORT TITLE</u></b>	<b><u>PAGE</u></b>	<b><u>WARD</u></b>
8.	External Audit - Completion Report	1 - 66	All

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# SLOUGH BOROUGH COUNCIL

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

16 July 2018



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# WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Corporate Governance Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two-way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Corporate Governance Committee. At the completion stage of the audit it is essential that we engage with the Audit and Corporate Governance Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Corporate Governance Committee meeting on 18 July 2018 and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

# OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Corporate Governance Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

## AUDIT SCOPE AND OBJECTIVES

Audit status	We are in the process of completing our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out on page 7 below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 27 February 2018.
Materiality	Our final materiality is £6.8 million. We have increased our materiality from £6.7 million to £6.8 million based on the draft financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

# OVERVIEW

## KEY AUDIT AND ACCOUNTING MATTERS

### Material misstatements

Our audit identified the following material misstatements, which management has agreed to amend in the revised financial statements:

- £53.5 million understatement of income and expenditure as a result of housing benefit subsidy income incorrectly netted off against housing benefit expenditure
- £7.9 million understatement of income and expenditure in the children, learning, and skills directorate due to incorrect coding of schools income to expenditure.

In addition, we identified a number of presentational misstatements in the following notes, which we consider to be either quantitatively or qualitatively material and which management has agreed to amend in the revised financial statements:

- Cash Flow Statement and associated notes
- Housing Revenue Account notes
- Property, plant and equipment note
- 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, did not change the deficit on the provision of services

### Unadjusted audit differences

There are eight 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, increase the deficit on the provision of services by £4.246 million. Management 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.

# OVERVIEW

## KEY AUDIT AND ACCOUNTING MATTERS CONTINUED

Control environment	<p>Our audit identified a number of significant deficiencies in internal controls in respect of:</p> <ul style="list-style-type: none"> <li>• Quality of working papers supporting the financial statements</li> <li>• Critical review of the draft financial statements Mapping of debtors and creditors</li> <li>• Bank reconciliations</li> <li>• Maintenance of the fixed asset register</li> <li>• Weaknesses in IT general controls around user access and password security.</li> </ul>
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## KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Medium term financial strategy	<p>We are satisfied that the Council has adequate arrangements for budget setting and budget monitoring and that the Council has retained its track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends.</p> <p>The MTFs reflects known savings and cost pressures and we consider that the key assumptions are not unreasonable. The MTFs and associated capital programme and treasury strategy take account of the investment costs associated with major development projects and savings schemes.</p> <p>The general fund balance and earmarked reserves act as a potential buffer against future risks, although the amount of headroom provided is limited. Whilst achievement of the required level of savings in the MTFs will be very challenging and will continue to require strong leadership and action by the Council to close budget gaps, we are satisfied that there are adequate arrangements in place to remain financially sustainable in the medium term.</p>
Internal control and governance arrangements	<p>The Head of Internal Audit has reported a positive opinion that the Council has an adequate and effective framework for risk management, governance and internal control, although there is scope for future enhancements to the framework to ensure that it remains adequate and effective. This is an improvement from the negative assurance opinion issued in the prior year.</p> <p>However, there remained weaknesses and material misstatements in the preparation of the 2016/17 Statement of Accounts that took place during the 2017/18 financial year. Action was taken to address capacity issues in the finance team towards the end of the year and this has resulted in improvements in the presentation of 2017/18 financial statements, although there is still significant scope for improvement in the quality of the underlying working papers to ensure that the financial statements are free from material error.</p>
Senior management and councillors	<p>Whilst there has been a high and sudden turnover of a number of members of the leadership team and key operating personnel during 2017/18, alongside an organisation restructuring, we have not identified any evidence that suggests this led to any significant reduced performance or weaknesses in informed decision making. There has been a reduction in the numbers of senior interim officers since the prior year, which should help to bring stability to the Council in the longer term.</p>



# OVERVIEW

## KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES CONTINUED

Children's social care services	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 2017/18, Ofsted has concluded that the quality of management oversight and decision-making remains an area requiring improvement.
Overall use of resources conclusion	<p>Our audit work on use of resources is not yet complete and therefore there is a possibility that our conclusions in this area may change as we finalise our work. However, from our work completed to date, we are proposing to qualify our opinion on an 'except for basis' in respect of:</p> <ul style="list-style-type: none"> <li>Weaknesses in processes for preparing the 2016/17 financial statements (which took place during 2017/18), and ongoing weaknesses in the quality of the underlying working papers supporting the 2017/18 financial statements, which we consider is evidence of weaknesses in informed decision making</li> <li>Ongoing Ofsted rating of 'requires improvement' for Slough Children's Services Trust, which indicates weaknesses in partnership arrangements.</li> </ul> <p>Despite this proposed qualification, it is important to register that the direction of travel in both areas is positive.</p>

## AUDIT OPINION

Financial statements	Subject to the successful resolution of outstanding matters set out on page 7, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Annual Governance Statement	Our review of the draft Annual Governance Statement is in progress. We will provide an update on our findings when our work in this area is complete.
Use of resources	As reported above, we anticipate issuing a modified opinion on the use of resources for the year ended 31 March 2018 due to combination of weaknesses in the Council's financial statements preparation processes and continuing weaknesses in Children's social care services.
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

## OUTSTANDING MATTERS

We are in the process of completing our audit work for the year ended 31 March 2018, 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
- 2 Journal testing
- 3 Review of schools reserves balance
- 4 Review of Groups Account, to confirm materiality
- 5 Completion of bank and cash testing
- 6 Review of Narrative Report and Annual Governance Statement
- 7 Once received, a review of the valuer's work on measurement of floor sizes of a sample of specialised non-current assets due to discrepancies between sizes used by valuer and information held by the Council
- 8 Assurance from the auditors of the Pension Fund regarding accuracy and completeness of data provided by the pension fund to the actuary for the triennial valuation
- 9 Report from the asset system showing when assets were last revalued
- 10 Completion of Cash Flow Statement testing
- 11 Review of Expenditure and Funding Analysis note and restatement of prior year comparatives
- 12 Final review and approval by you of the Statement of Accounts
- 13 Subsequent events review
- 14 Technical review and clearance

# KEY AUDIT AND ACCOUNTING MATTERS

## AUDIT RISKS

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	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We are in the process of reviewing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We have tested a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual, if any.</p>	<p>Our work on the appropriateness of journals, including adjustments made in preparation of the financial statements, is still in progress although no issues have been identified to date. We will update the Audit and Corporate Governance Committee when we have completed our testing.</p> <p>We have found no evidence of bias in accounting estimates. We have commented on the reasonableness of significant accounting estimates later in the report.</p> <p>No unusual transactions outside of the normal course of business were identified.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2 Revenue and expenditure recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We consider there to be a significant risk in relation to the existence and cut-off of revenue grants included as income in net cost of services within the Comprehensive Income and Expenditure Statement, when conditions attached to such grants have not been met.</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.</p>	<p>We are in the process of testing a sample of revenue grants recorded as income in the net cost of services to documentation from grant paying bodies and checking whether revenue recognition criteria have been met.</p> <p>We are in the process of testing a sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been.</p> <p>We have tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.</p>	<p>Our testing of a sample of revenue grants in the net cost of services is still in progress although no issues have been identified by audit work completed to date.</p> <p>Our testing of a sample of receipts either side of year end is in progress although no issues have been identified by audit work completed to date.</p> <p>Our testing of a sample of payments either side of year has not identified any issues.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>3</p> <p><b>Financial statements preparation</b></p>	<p>Our audit in the prior year identified weaknesses in the Council’s arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified, including material misstatements in the following areas:</p> <ul style="list-style-type: none"> <li>• Financial instruments notes</li> <li>• Debtors and creditors analyses</li> <li>• Senior officer remuneration and exit packages note</li> <li>• Cash Flow Statement and associated notes.</li> </ul> <p>Our Audit Plan identified a risk of material misstatement in the 2017/18 financial statements if the weaknesses in Council’s arrangements for preparing the financial statements are not addressed.</p>	<p>A meeting was held with finance officers in the lead up to the accounts closedown to discuss progress with the faster close project, risk areas and emerging and contentious accounting issues.</p> <p>We provided a detailed list of audit working paper requirements for each stage of our fieldwork to finance staff and we briefed the team on our expectations for good quality working papers.</p> <p>We are in the process of carrying out a detailed review of the draft financial statements against the requirements of the Code of Practice on Local Authority Accounting 2017/18 and will provide feedback to management.</p> <p>We carried out a high-level analytical review of the financial statements against comparatives and sought explanations from the Council for material variances.</p> <p>We commenced our testing of the areas where significant misstatements were identified in the prior year during interim and at an early stage in the final audit visit.</p>	<p>Whilst the overall presentation of the draft financial statements is significantly better than the prior year, they still contain a similar level of inconsistencies compared to the draft statements provided to us in the prior year.</p> <p>Management had not performed a critical review of the financial statements to identify and explain significant variances in income and expenditure between the current year and prior year until audit work had commenced.</p> <p>Our audit has identified a number of misstatements in the same areas that were materially misstated in the prior year, including a material understatement of income and expenditure as a result of housing benefit subsidy income incorrectly netted off against housing benefit expenditure.</p> <p>The majority of the electronic working papers were provided to us at the start of the audit. However, we identified a number of inconsistencies and missing information in the working papers provided.</p> <p>There is still significant scope for improvement in the quality of the financial statements and in particular the underlying working papers.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Financial statements preparation (continued)	Financial instruments notes	<p>Our work on financial instruments is still in progress. We were not provided with financial instruments working papers at the start of the audit and these had to be requested during the audit. Our initial review of the financial instruments note has identified the following issues:</p> <ul style="list-style-type: none"> <li>• The financial liabilities fair value disclosure note does not cast</li> <li>• The financial and other risks arising from financial instruments, including credit risk, were not disclosed</li> <li>• A credit ratings table showing the Council's investment and cash equivalent portfolio and whether outstanding deposits at year end meet the Council's credit rating criteria was not disclosed</li> <li>• Maturity structure of borrowings was not disclosed</li> <li>• Change in borrowings as a result of a change in interest rate was not disclosed</li> <li>• The percentage of debt portfolio held in fixed rate instruments and variable rates or Lender's Option Borrower's Option (LOBO) instruments was not disclosed.</li> </ul> <p>We will report our findings when we obtain the Council's working papers and revised financial statements.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Financial statements preparation (continued)	Debtors and creditors analyses	<p>Our audit identified the following issues, which management has agreed to amend in the revised financial statements:</p> <ul style="list-style-type: none"> <li>• Short term debtors balance per stream did not agree to debtors working papers</li> <li>• NHS bodies and Local authorities debtors were disclosed at a £nil balance instead of £2.458 million and £3.574 million respectively. In addition, balances with central government bodies was disclosed as a credit balance of £6.888 million instead of a debit balance of £10,774 million, and balances with other entities was disclosed as £40.073 million instead of £16.379 million.</li> <li>• £3.063 million receivable from DWP was incorrectly included as a debit balance in creditors, resulting in understatement creditors and debtors</li> <li>• £1.261 million receivable from other local authorities in respect of LED project funding was included as a debit balance in creditors, resulting in an understatement of creditors and debtors</li> <li>• £367,000 pension contributions prepayment included as a debit balance within creditors, resulting in an understatement of creditors and debtors.</li> </ul> <p>In addition, we found that £851,000 income receivable in the 2018/19 financial year was incorrectly recorded in the current financial year and the reversing journal was incorrectly processed, resulting in an overstatement of debtors and creditors. This is recorded as an uncorrected misstatement in Appendix I (number 8).</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Financial statements preparation (continued)	Senior officer remuneration and exit packages note	<p>Our audit of senior officer remuneration and exit package note identified the following issues, which management agreed to amend:</p> <ul style="list-style-type: none"> <li>• An extra payment per the termination agreement for a staff member was not included in the total cost of the exit package; this issue was identified during our interim audit and has been corrected</li> <li>• The comparative total exit package cost and number of exit packages did not agree to the prior year signed accounts; this issue was identified during our interim audit and has been corrected</li> <li>• Election and emergency call out payments to the Director of regeneration, Assistant director for adult social care, Director of adults and communities and Assistant director of finance were not included in the salary, fees, and allowances payments in the Officer's remuneration note</li> <li>• The Council's share of the Director of Public health cost was incorrectly calculated as it did not take payments of £15,000 into account</li> <li>• Exit package figures erroneously excluded payments in lieu of notice (PILON), annual leave compensation payments and legal fees (taxable/pensionable) totalling £102,784</li> <li>• The severance payment of £86,653 to the interim Chief Executive was included twice</li> <li>• The PILONs for two employees, totalling £17,000, were not included in the exit packages note</li> <li>• The number of compulsory redundancy and other redundancies disclosed in the exit package note was incorrectly stated as nine and two respectively, instead of four compulsory redundancies and eight other redundancies</li> <li>• The pension cost for interim Chief Executive was overstated.</li> </ul>
	Financial statements preparation (continued)	Cash Flow Statement and associated notes	The Council had not prepared separate cash flow working papers as it had relied on the automatic workings from CIPFA's red button approach. Our review of the cash flow statement in the draft financial statement identified that the comparative amounts do not agree to the prior year audited financial statements. Our work in this area is still in progress and we will update the Committee with the results of our testing, when complete.



# KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	<p><b>Schools' transactions and reconciliations</b></p>	<p>In prior years, we reported that the Council's arrangements for consolidating schools' income, expenditure, working capital balances, and reserves required significant improvement.</p> <p>In our Audit Plan we identified a risk of material misstatement in the 2017/18 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools' transactions are not addressed.</p>	<p>We are in the process of reviewing reconciliations between the general ledger and returns submitted by schools to support their income, expenditure, working capital balances, and reserves.</p> <p>We have substantively tested a sample of schools' transactions to check the accuracy and existence of transactions.</p>	<p>Our review of the reconciliation between the general ledger and the returns submitted by the schools to support their income, expenditure, working capital balances and reserves is in progress and we will update the Committee with results of our testing as soon as we completed this work</p> <p>Our substantive test of a sample of schools transactions to supporting documentation did not identify any issues.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Bank and cash	<p>Our audit in the prior year identified weaknesses in the Council's arrangements for preparing bank and cash working papers, and a significant number of misstatements were identified in the financial statements.</p> <p>In our Audit Plan we identified a risk of material misstatement in the 2017/18 financial statements if the weaknesses in working papers prepared to support the cash and cash equivalents balance in the financial statements are not addressed.</p>	<p>We have carried out a detailed review of the working papers provided to support the cash and cash equivalents balance in the financial statements, including analyses of all bank accounts and associated bank reconciliations.</p>	<p>The bank and cash working papers provided for audit did not adequately analyse the balance in the Balance Sheet or support the reconciling differences between the ledger and bank statement figures.</p> <p>Our audit on cash and cash equivalents is still in progress.</p> <p>However, our work to date has identified a £4.144 million misstatement between creditors and the bank balance in respect of an account payment made at year end and reversed after year end (payment only cleared through the bank statement after year end). We are of the opinion that the general ledger entries should not have been reversed at year-end and should have been treated as a reconciling item. Bank and creditors are therefore overstated by this amount year-end. Management has agreed to correct this in the revised financial statements.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	<b>Expenditure and funding analysis and change in directorate structure</b>	<p>A management restructure during the year has resulted in the creation of new directorates. These changes have required a new mapping of income and expenditure to services in the Comprehensive Income and Expenditure Statement (CIES) and the Expenditure and Funding Analysis (EFA), and a restatement of comparatives.</p> <p>Our audit in the prior year also identified weaknesses in the Council's arrangements for preparing the EFA and restating comparatives, resulting in significant presentational misstatements in the accounts.</p> <p>There is a risk that the CIES and EFA may not be properly prepared in accordance with the new directorate structure and the requirements of the Code of Practice for Local Authority Accounting 2017/18, including restatement of comparatives to ensure consistency between the years</p>	<p>We are in the process of:</p> <ul style="list-style-type: none"> <li>• Reviewing the CIES and EFA and checking that they been prepared in accordance with the Code of Practice for Local Authority Accounting 2017/18</li> <li>• Checking that income and expenditure has been appropriately mapped to the new directorates</li> <li>• Checking that the CIES and EFA comparatives have been appropriately and consistently mapped and that management is able to explain any significant variances between the years.</li> </ul>	<p>Our audit work in this area is still in progress. We will update the Committee with the results of our testing as soon as we have completed our testing in this area.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Group accounts	<p>The Council is one of two members of a limited liability partnership (LLP), trading as Slough Urban Renewal Partnership LLP (SUR LLP). It has a 50% interest in the LLP, the remaining interest being held by the other member, a private sector construction services business. The arrangement comprises a joint venture as defined by IFRS 11 “Accounting for joint arrangements.” In prior years the Council has accounted for its interest in the joint venture on a cost basis and has not prepared Group Accounts, as its share of transactions in the joint venture has not been material.</p> <p>In our Audit Plan we noted that there has been an increase in activity in the joint venture in the current year and therefore it is possible that the Council will now need to prepare Group Accounts and account for its interest in the joint venture using the equity method of accounting.</p> <p>During the year the Council established two wholly owned housing subsidiaries (Herschel Homes Limited and James Elliman Homes Limited), to assist in the provision of affordable homes.</p> <p>Our Audit Plan identified a risk that the Council may have a material interest in these entities.</p>	<p>We are in the process of reviewing evidence supporting management’s assessment of its interests in these entities, for the purposes of establishing whether Group Accounts are required.</p> <p>We are reviewing the financial statements and management accounts of SUR LLP and its subsidiaries, Herschel Homes Limited and James Elliman Homes Limited, to assess the adequacy of management’s assessment</p>	<p>Our audit work in confirming whether or not Group Accounts is required is in progress. Our work to date in reviewing the Group Accounts within the draft financial statements has identified the following:</p> <ul style="list-style-type: none"> <li>• The Group CIES is not fully populated, with a number of current year and prior year amounts omitted</li> <li>• The Group Balance Sheet incorrectly has a £nil balance in respect of investments in associates</li> <li>• The Group Cash Flow Statement is incomplete</li> <li>• There are no disclosure notes in the Group Accounts.</li> </ul> <p>Our initial review of SUR LLP’s management accounts of the SUR LLP is that it is not material from a group’s perspective.</p>

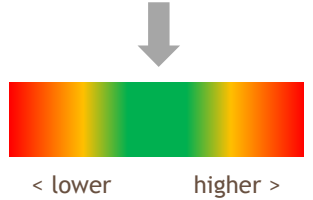
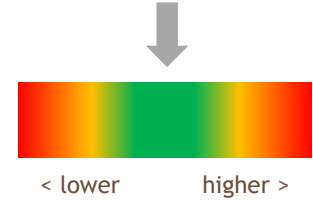
# KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>8</p> <p><b>Valuation of non-current assets</b></p>	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets and investment properties) at the Balance Sheet date.</p> <p>The Council appointed an external valuer to carry out a revaluation on a sample of assets, as at 1 January 2018, and a further market movement review as at 31 March 2018.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, our Audit Plan identified 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.</p>	<p>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.</p> <p>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.'</p> <p>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.</p> <p>We also reviewed the data used by the valuer and compared to internal data within the Council to confirm that valuations are based on the correct inputs.</p>	<p>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.</p> <p>We confirmed that asset classes have been valued on an appropriate basis.</p> <p>In comparing the floor sizes used by the valuer to internal records held by the Council, we identified a number of discrepancies. The valuer has confirmed that they have not measured the properties and have relied on information provided by the Council in respect of significant capital expenditure each year. As a result of the audit, management has now commissioned the valuer to measure the floor areas of a sample of assets, with the aim of providing assurance that the valuer's input data is not materially misstated.</p> <p>Findings from our review of the reasonableness of valuation assumptions applied are noted on the following pages.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p>	<p><b>Surplus assets</b></p> <p>Surplus assets were revalued at £7.759 million on 1 January 2018, an increase of £272,000 since the last valuation. This represented a 3.6% upward movement. No indexation was accounted for in the last quarter of the year, in accordance with the valuer’s year-end market review.</p> <p>The overall increase of 3.6% for the year is within a reasonable range when compared to a 3% increase (which would yield an increase of £214,000) indicated by regional trends of property prices in the South East and local factors within Slough. We also obtained explanations for specific assets that had movements outside of a reasonable range and concluded these explanations to be reasonable.</p> <p><b>Council dwellings</b></p> <p>Council dwellings were revalued on 1 January 2018, resulting in a 1% increase.. No indexation was accounted for in the last quarter of the year, although the valuer’s year-end market review indicated an increase of 1.5% for the period. The increase of 1% applied is within a reasonable range when compared to a 1.1% increase for the year per the Land Registry’s annual index after applying the social housing discount factor of 33% for the South East region.</p>	<p style="text-align: center;">↓</p> <p style="text-align: center;">&lt; lower                  higher &gt;</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">&lt; lower                  higher &gt;</p>


# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p>	<p><b>Land and buildings - Depreciated Replacement cost.</b></p> <p>Specialised assets revalued on the depreciated replacement cost basis were revalued on 1 January 2018 and increased by 4.5%, to £6.7 million. No indexation was accounted for in the last quarter of the year, although the valuer’s year-end market review indicated an increase of 1% for the period. However, overall we consider that the increase of 4.5% applied is within a reasonable range when compared to the BCIS all in tender price index of 6.7% for the year.</p>	
	<p><b>Land and buildings - Existing use value</b></p> <p>Land and buildings revalued on the existing use basis were revalued on 1 January 2018, with no indexation recognised for the last quarter in accordance with the valuer’s year-end market review. Land and buildings decreased in value by £7.3 million, to £15.9 million, as a result of the valuation. This represented a 32% decrease. The downward revaluation included a £4.7 million impairment on the Council’s headquarters at St Martins Place and a further £3.2 million relating to five community centres and a car park. We questioned the valuer as to why these assets, which appear to be specialised with little or no evidence of recent market transactions, were valued on an existing use basis rather than a depreciated replacement cost basis. The valuer confirmed that even though the Council does not necessarily lease out all its community properties, the valuer has a comprehensive knowledge of potential rental values for community properties in local authorities based on rental evidence elsewhere, which they have assessed in providing the estimated values for the Council’s assets. We are satisfied that this valuation approach is in line with the valuation guidance which suggests that the depreciated replacement cost approach be used as a last resort when there is no relevant recent evidence of transactions.</p>	

## KEY AUDIT AND ACCOUNTING MATTERS

### SIGNIFICANT ACCOUNTING ESTIMATES

#### Land, buildings, dwellings and investment property valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p>	<p><b>Investment property.</b></p> <p>Investment properties were revalued on 1 January 2018, with no indexation recognised for the last quarter in accordance with the valuer's year-end market review. Investment properties increased in value by £2.8million, to £65 million year on year per the valuation provided by the valuer, representing a 4% increase. The increase is within a reasonable range in comparison to a 2% increase (which would yield an increase of £1.2 million) indicated by regional trends of property prices in the South East and local factors within Slough. We also obtained explanations for specific assets with movements outside the reasonable range and are satisfied that these explanations are reasonable.</p>	<p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p>



# KEY AUDIT AND ACCOUNTING MATTERS

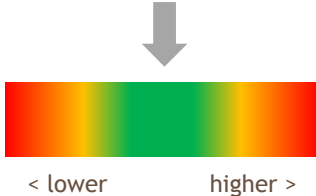
Page 23

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	<p><b>Pension liability assumptions</b></p>	<p>The net pension liability comprises the Council’s share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>Our Audit Plan identified a risk that the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We have sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether significant changes in membership data have been communicated to the actuary.</p>	<p>Our audit work identified that the draft financial statements did not disclose the financial and mortality assumptions applied by the actuary per the IAS 19 report, or the potential impact on the liability for a 1% increase or decrease in the financial assumptions.</p> <p>We also noted that there were no disclosures in the draft financial statements in respect of the scheme’s assets and the fair value of these assets at year end.</p> <p>We have written to the auditors of the pension fund to confirm the results of their audit work carried out to ensure that membership data and cash flow information provided to the actuary is complete and accurate. We will update the Committee when we have received assurance from the auditors of the pension fund.</p> <p>Our consideration of the actuarial assumptions used by the pension fund actuary is noted on the following page. 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.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT ACCOUNTING ESTIMATES

### Pension liability assumptions

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT																																																	
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	<p>The actuary has used the following assumptions at 31 March 2018 to value the future pension liability. We have compared the assumptions used to an acceptable range and those used across local government actuaries.</p> <p>The PwC consulting actuary review of the relative strength of the main assumptions on the liability assumptions suggests that Barnett Waddingham tends to place a higher value on the liability than other actuaries where standard assumptions are applied and that the overall assumptions are reasonable.</p>																																																		
			<table border="1"> <thead> <tr> <th></th> <th>Actual used</th> <th>Acceptable range</th> <th>Comments</th> </tr> </thead> <tbody> <tr> <td>RPI increase</td> <td>3.3%</td> <td>3.30-3.35%</td> <td>Reasonable</td> </tr> <tr> <td>CPI increase</td> <td>2.3%</td> <td>2.30-2.35%</td> <td>Reasonable</td> </tr> <tr> <td>Salary increase</td> <td>3.8%</td> <td>CPI +1.5% to 2.2%</td> <td>(based on 2016 valuation) Reasonable in context of CPI / RPI</td> </tr> <tr> <td>Pension increase</td> <td>2.3%</td> <td>2.30-2.35%</td> <td>Reasonable</td> </tr> <tr> <td>Discount rate</td> <td>2.60%</td> <td>2.50-2.60%</td> <td>Reasonable</td> </tr> <tr> <td>Mortality - LGPS:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>- Male current</td> <td>25.3 years</td> <td>23.7-26.8</td> <td>Reasonable</td> </tr> <tr> <td>- Female current</td> <td>27.5 years</td> <td>26.6-28.4</td> <td>Reasonable</td> </tr> <tr> <td>- Male retired</td> <td>23.1 years</td> <td>21.5-24.5</td> <td>Reasonable</td> </tr> <tr> <td>- Female retired</td> <td>25.2 years</td> <td>24.3-26.10</td> <td>Reasonable</td> </tr> <tr> <td>Commutation</td> <td>50%</td> <td>50%</td> <td>Reasonable</td> </tr> </tbody> </table>		Actual used	Acceptable range	Comments	RPI increase	3.3%	3.30-3.35%	Reasonable	CPI increase	2.3%	2.30-2.35%	Reasonable	Salary increase	3.8%	CPI +1.5% to 2.2%	(based on 2016 valuation) Reasonable in context of CPI / RPI	Pension increase	2.3%	2.30-2.35%	Reasonable	Discount rate	2.60%	2.50-2.60%	Reasonable	Mortality - LGPS:				- Male current	25.3 years	23.7-26.8	Reasonable	- Female current	27.5 years	26.6-28.4	Reasonable	- Male retired	23.1 years	21.5-24.5	Reasonable	- Female retired	25.2 years	24.3-26.10	Reasonable	Commutation	50%	50%	Reasonable
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## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	Related party disclosures	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. Our audit in the prior year found that the related parties note did not adequately disclose the Council’s transactions and balances with Slough Urban Renewal LLP. Our Audit Plan identified a risk that related party disclosures may not be complete and in accordance with the Code of Practice on Local Authority Accounting 2017/18 requirements.</p>	<p>We updated our understanding of the Council’s related party transactions identification procedures and reviewed the relevant information to identify related parties and related party transactions. We 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.</p>	<p>Our audit work did not identify any issues with the Council’s procedures for identifying related parties and related party transactions. Our discussions with management and review of councillors’ and senior managers’ declarations did not identify any undisclosed related parties and related party transactions. We noted that the disclosure of transactions with SUR LLP had not been updated from the prior year. Management has agreed to update this note in the revised financial statements. Our Companies House searches did not identify any undisclosed related party transactions.</p>

## 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	Property, plant and equipment (PPE)	<p>Our audit of property, plant and equipment during our interim and final audit work identified the following issues:</p> <ul style="list-style-type: none"> <li>• Our interim audit identified an asset with a net book value of £2.2 million that had been demolished but not removed from the asset register. We reviewed the asset register during our final audit and confirmed that the asset had been removed and not included in the net asset value of property plant and equipment at year end. Our final audit also identified two assets with a combined net book value of £3.497 million that had been demolished but not removed from the asset register. We obtained a list of all demolished properties and confirmed that they are not included in the asset register at year end. This is included as an uncorrected misstatement in Appendix I (number 2).</li> <li>• Our interim audit also identified an asset with a net book value of £0.1 million that had been sold but not removed from the asset register. We reviewed the asset register during our final audit and confirmed that asset had been removed and not included in the net asset value of property, plant, and equipment at year end. We obtained a list of all properties disposed during the year and confirmed that they are not included in the asset register.</li> <li>• Our interim audit identified nine council dwellings with total net book value of £0.94 million and two infrastructure assets with total net book value of £0.2 million that had not been depreciated. We reviewed the asset register during our final audit and confirmed that these assets have now been depreciated.</li> <li>• Our interim audit identified an asset classified as an investment property that should have been classified as a held for sale asset, as it meets the classification requirement for held for sale assets. We reviewed the asset register during our final audit and confirmed that the asset had been disposed before year end and correctly removed from the asset register.</li> <li>• Our interim audit identified that an operational asset with a net book value of £0.14 million generating rental income was classified as a surplus asset instead of investment property. We reviewed the asset register at year end and confirmed that the asset had been reclassified. Our additional audit work to ensure that there are no misclassification between surplus and investment properties did not identify any misclassifications.</li> <li>• Our final audit identified a total difference of £11.649 million between the PPE note in the financial statements and the asset register, resulting from the Council not writing out depreciation on revaluation on the gross cost and accumulated depreciation sections of the note. Management has agreed to correct this in the revised financial statements.</li> <li>• Our final audit identified a £2.324 million understatement of land and buildings valued on a depreciated replacement cost basis due to incorrect input of valuations, resulting in differences between the asset register and the valuer's certificate. This is included as an uncorrected misstatement in Appendix I (number 1).</li> </ul>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
1	Property, plant and equipment (continued)	<ul style="list-style-type: none"> <li>Our final audit identified a £2.112 million understatement of council dwellings due to incorrect input of valuations, resulting in differences between the asset register and the valuer's certificate. This is included as an uncorrected misstatement in Appendix I (number 1).</li> <li>£1 million of impairment cost disclosed in the property, plant and equipment note as depreciation written out to the deficit on the provision of services should be disclosed as revaluation increases/(decreases) recognised in the deficit on the provision of services. Management has agreed to make the changes to the note in the revised financial statements.</li> <li>Misclassification of four council dwellings with a net asset value of £1.053 million incorrectly classified as assets under construction. Management has agreed to leave this as unadjusted audit error. This is included as an uncorrected misstatement in Appendix I (number 3).</li> </ul>
2	Capital commitments	The capital commitments note in the draft financial statements did not include all significant commitments and some commitments differed from those in the capital budgets. Management agreed to update this in the revised financial statements.
3	Service concession assets	Service concession assets in the service concession note did not agree to the fixed asset register. Management has agreed to amend this disclosure in the revised financial statements.
4	Long term investments	Our audit work found that available-for-sale financial assets were not measured on a fair value basis, as required by IAS 39. The current valuation means that the value is understated by £0.17 million. This is included as an uncorrected misstatement in Appendix I (number 4).
5	Short term investments	Our audit work found that available-for-sale financial assets were not measured on a fair value basis, per IAS 39. The current valuation means value is understated by £0.15 million. This is included as an uncorrected misstatement in Appendix I (number 4).

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
6	Collection Fund	<p>Our audit identified the following disclosure misstatements within the collection fund notes, which management has agreed to correct in the revised financial statements:</p> <ul style="list-style-type: none"> <li>• The Council did not disclose the total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year, as required by the Code of Practice on Local Authority Accounting 2017/18</li> <li>• The council tax income note has no narrative explaining the calculation of the council tax income, as required by the Code of Practice on Local Authority Accounting 2017/18</li> <li>• The number of dwellings in the council tax income note is misstated</li> <li>• The adjustment for non-collection is currently disclosed as £nil instead of £670,000</li> <li>• The Council tax base has not taken into account the adjustment for non-collection.</li> </ul>
7	Non-specific grant income	<p>Our audit identified the following disclosure misstatements within grant income credited to the taxation and non-specific grant income and expenditure note, which management has agreed to correct in the revised financial statements:</p> <ul style="list-style-type: none"> <li>• The total grant income did not cast by £0.5 million</li> <li>• Education service grant disclosed as section 35 grant.</li> </ul>
8	Business rates income	<p>Our audit found that non-domestic rates income within the taxation and non-specific grant income note was overstated by £0.5 million, due to the inclusion of section 31 grant income. This is included as an uncorrected misstatement in Appendix I (number 5).</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
9	Fees and charges	Our audit of fees and charges identified an internal recharge of £4.8 million relating to the charges from Slough waste management service, which is part of the Council. As these internal recharges do not meet the definition of income and expenditure, income and expenditure are both overstated by £4.8 million. Our extended work on fees and charges did not identify any additional internal recharges included in income or expenditure. This is included as an uncorrected misstatement in Appendix I (number 7).
10	Long term debtors	<p>Our audit of long term debtors identified the following issues:</p> <ul style="list-style-type: none"> <li>• The working papers provided to support long term debtors did not agree to the balance in the financial statements</li> <li>• During the year £1.4 million was received from a long-term debtor who decided to pay early, however only 1.3 million was credited to the long term debtor. Long term debtors are therefore overstated by £0.3 million; management has agreed to make this correction in the revised financial statements.</li> </ul>
11	Debtor impairment allowance	Our audit work on the debtor impairment allowance found that the calculation in respect of housing benefit debtors, based on recovery rates, was overstated by £288,000. This is included as an uncorrected misstatement in Appendix I (number 6).
12	Creditors	<p>Our audit work on creditors identified the following issues (in addition to those reported on page 12):</p> <ul style="list-style-type: none"> <li>• £0.4 retention payment payable to the contractor of the LED projects has been classified as a short term creditor even though payment is only due in 2020 and therefore should have been classified as a long term creditor</li> <li>• Understatement of home care accrual by £0.22 million based on actual invoices paid in April 2018</li> <li>• Berkshire Fire Authority’s share of the council tax receipt in advance of £0.4 million was incorrectly classified as a central government creditor instead of other local authority creditor.</li> </ul> <p>Management has agreed to make these corrections in the revised financial statements</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
13	Housing Revenue Account	<p>Our audit identified the following disclosure misstatements within the HRA and supporting notes, which management has agreed to correct in the revised financial statements:</p> <ul style="list-style-type: none"> <li>• No disclosure of the vacant possession housing values</li> <li>• Sixteen new council dwellings were not included in the housing stock note in the financial statements</li> <li>• The number of properties sold disclosed in the housing stock note in the financial statements was thirty-seven instead of sixty-six</li> <li>• The number of new properties disclosed in the housing stock note was twenty six instead of seventy-eight</li> <li>• The number of demolished properties disclosed in the housing stock note was seven instead of fourteen.</li> </ul>
14	Other disclosure issues	<p>A number of other disclosure misstatements were identified, which have been corrected in the revised financial statements, including:</p> <ul style="list-style-type: none"> <li>• No upward revaluation disclosed in the revaluation reserve note, although the revaluation reserve working paper and asset register indicate an upward revaluation of £41.98 million; the downward revaluation or impairment not taken to the CIES should be £16.17 million instead of £25.8 million</li> <li>• The other operating expenditure note did not breakdown gains/loss on disposal of current assets into the net proceeds from sale HRA of £4.41 million and General Fund of £8.54 million.</li> </ul>
15	Accounting policies note	<p>The accounting policies note does not disclose that additions are not depreciated in the year of acquisition. Management has agreed to include this in the revised financial statements.</p>
16	Immaterial disclosures	<p>The financial statements include a number of notes that are not material, such as intangible assets, inventories and long term provisions. These should be removed as they distract from the material information on the financial statements. Management has agreed to remove immaterial disclosures in the revised financial statements.</p>



# KEY AUDIT AND ACCOUNTING MATTERS

## MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures have not identified any 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	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.
	Our review of the Narrative Report is still in progress and we will update the Committee when we have completed our review.
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.
	Our review of the Annual Governance Statement is still in progress and we will update the Committee when we have completed our review.

# 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 the Audit and Corporate Governance Committee.

As the purpose of the audit is for us to express an opinion on the Council's 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. 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 significant deficiencies in respect of, which we have included in the action plan at Appendix II:

- Quality of working papers supporting the financial statements
- Critical review of the draft financial statements
- Mapping of debtors and creditors
- Bank reconciliations
- Maintenance of the fixed asset register
- 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.

## 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 2017/18 Audit Plan issued in February 2018. 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

# USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 Medium Term Financial Strategy</p>	<p>The update to the Medium Term Financial Strategy (MTFS) to 2020/21 has forecast further reductions in Government core grant funding and annual inflationary and pay award pressures. Significant levels of savings are required to balance the budget in three of the four years from 2017/18. As at February 2018 the savings requirement amounted to £12.411 million in 2017/18, £5.596 million in 2018/19, £281,000 in 2019/20 and £5.135 million in 2020/21.</p> <p>The Council has a number of savings schemes, regeneration projects and capital projects in progress to generate additional income going forward. These include:</p> <ul style="list-style-type: none"> <li>• Management and staff restructuring</li> <li>• Reductions in revenue costs associated with the Slough Children’s Services Trust</li> <li>• Investment in housing property companies</li> <li>• Insourcing environmental services</li> <li>• Development of two hotels in the centre of town</li> <li>• Development of the Thames Valley University site.</li> </ul> <p>In our Audit Plan we identified a risk that the MTFS does not adequately take account of the investment costs associated with major savings schemes and development projects and that there are insufficient underlying risk management and monitoring arrangements in place to ensure successful delivery of these projects.</p> <p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the reasonableness of the MTFS assumptions, including investment costs associated with major savings schemes and capital projects</li> <li>• Reviewed the adequacy of risk management and monitoring arrangements underpinning major development projects.</li> </ul>	<p><b>Overall conclusion regarding sustainable deployment of resources</b></p> <p>We are satisfied the Council has adequate arrangements for budget setting and budget monitoring and the Council has retained its track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends.</p> <p>The MTFS reflects known savings and cost pressures and the key assumptions are not unreasonable. The MTFS and associated capital programme and treasury strategy take account of the investment costs associated with major development projects and savings schemes.</p> <p>The general fund balance and earmarked reserves act as a potential buffer against future risks, although the amount of headroom provided is limited. Whilst achievement of the required level of savings in the MTFS will be challenging and will require strong leadership and action by the Council to close budget gaps, we are satisfied that there are adequate arrangements in place to remain financially sustainable in the medium term.</p> <p><b>Detailed findings</b></p> <p>Internal Audit carried out a review of the budget setting process for 2017/18 as part of their 2016/17 audit plan and reported “reasonable assurance” over the process (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).</p> <p>In 2017/18 Internal Audit reviewed budgetary control and performance reporting under the Five Year Plan and reported “reasonable assurance” in both areas.</p> <p>During the year the Council forecast that there would be an overspend. However, management recovered the position and was able to report an underspend of £224,000 for the year.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 Medium Term Financial Strategy (continued)</p>	<p>As above.</p>	<p>The general fund balance as at 31 March 2018 per the draft financial statements is £8.712, an increase of £589,000 compared to 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.</p> <p>Non-schools earmarked general fund reserves per the draft financial statements have decreased by £938,000, to £3.960 million at 31 March 2018.</p> <p>The Council set a savings target of £6.398 million for its services in 2017/18, which equated to 6.1% of the Council's original net budget. These savings were achieved overall, either as originally proposed or by finding alternatives elsewhere within the service during the financial year. This compared to £8.7 million achieved in 2016/17 and a savings target of £5.596 million for 2018/19.</p> <p>The MTFS approved by Cabinet and the Council in February 2018 indicated that all of the required savings for the next three years (£5.596 million for 2018/19, £281,000 for 2019/20 and £5.135 million for 2020/21) has been identified. This MTFS included the Council's share of planned profits from Slough Urban Renewal LLP (SUR), the Council's joint venture partnership with Morgan Sindall Investments Limited.</p> <p>Management has started the process of preparing for the 2019/20 budget and a revised MTFS is being presented to Cabinet in July 2018. This proposes that the Council commence unwinding its reliance on revenue receipts from SUR to fund the revenue budget over the next two years, so that from 2021/22 SUR revenue receipts will only be used to increase general reserves or to reinvest in commercially focussed invest to save schemes. The Council forecasts that over £30 million in revenue receipts will be generated from this partnership between 2019 and 2025, which will help to strengthen the Council's reserves position.</p>

# USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 Medium Term Financial Strategy (continued)</p>	<p>As above.</p>	<p>The revised MTFS therefore includes additional savings requirement compared to the MTFS approved in February 2018. After taking account of identified savings and planned transformational fund savings, the most recent MTFS indicates funding gaps of £2.841 million in 2019/20, £2.246 million in 2020/21 and £599,000 in 2021/22.</p> <p>Work is in progress to identify schemes to fill the 2019/20 budget gap, including a fundamental root and branch review of the Council's income and expenditure. Detailed budget statements are being prepared for all service areas to inform Star Chamber Budget Challenge Sessions in September 2018.</p> <p>The MTFS includes reasonable income and expenditure assumptions. The Council is budgeting for a significant decrease in government grant funding over the period of the MTFS, with revenue support grant decreasing from £13.1 million in 2017/18 to £6.1 million in 2020/21 and the New Homes Bonus reducing from £3.1 million in 2017/18 to £2.5 million in 2020/21. Council tax is expected to increase by 4.5% (3% social care precept and 1.5% other services) in 2018/19 and then 1% in the following years to 2020/21. The Council is part of a Berkshire wide business rates pool in 2018/19, which is expected to result in an additional £1.4 million of funding.</p> <p>Capital plans including the development of the Thames Valley University site, the development of hotels in the town centre and the move of the Council's offices from St Martins place to the town centre. These plans are monitored by the Corporate management Team and the risks associated with the overall urban renewal are included in the corporate risk register. The corporate risk register is now regularly reviewed by the Audit and Corporate Governance Committee.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>2 Internal control and governance arrangements</p>	<p>Our 2016/17 use of resources conclusion was qualified due to weaknesses in the system of internal control and governance arrangements in key areas such as information governance, risk management, compliance with the Local Government Transparency Code, HR policies and procedures and whistleblowing response procedures.</p> <p>Our Audit Plan identified a risk that the Council may not be able to demonstrate that it has addressed these issues and applied the principles and values of sound governance and internal control to support informed decision making during 2017/18.</p> <p>We reviewed the Council's processes to address Internal Audit's prior year recommendations, and we assessed the potential impact on our audit of continuing or further weaknesses in the system of internal control identified by Internal Audit and other governance issues of which we are aware</p>	<p><b>Overall conclusion regarding informed decision making</b></p> <p>Our audit work in this area is in progress and we are awaiting the results of the Monitoring Officer's review of governance, which was commissioned by the Council during the year.</p> <p>However, based on our work completed to date, it is evident that the Council has made good progress in addressing the majority of previously identified weaknesses.</p> <p>The Head of Internal Audit has reported a positive opinion that the Council has an adequate and effective framework for risk management, governance and internal control, although there is scope for future enhancements to the framework to ensure that it remains adequate and effective. This is an improvement from the negative assurance opinion issued in the prior year.</p> <p>We are not at this stage proposing to qualify our use of resources opinion on general internal control and governance arrangements.</p> <p>However, there remained weaknesses and material misstatements in the preparation of the 2016/17 Statement of Accounts during 2017/18. Action was taken to address capacity issues in the finance team towards the end of the year and this has resulted in improvements in the presentation of 2017/18 financial statements, although there is still significant scope for improvement in the quality of the underlying working papers to ensure that the financial statements are free from material error.</p> <p>We are proposing to qualify our use of resources opinion in respect of the financial statements preparation process.</p>



## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>2 Internal control and governance arrangements (continued)</p>	<p>As above.</p>	<p><b>Detailed findings</b></p> <p>We have considered below each of the areas that led to our qualified use of resources opinion in the prior year in respect of informed decision making:</p> <p><i>Information Governance</i></p> <p>In the prior year, the Council did not have sufficient policies and procedures in place to support a robust information governance framework within the Council and Internal Audit issued a ‘no assurance’ report.</p> <p>This year, Internal Audit has issued a ‘partial assurance’ report and concluded that whilst the Council had taken action to address some of the failings identified in the previous report in 2016/17, such as the commencement of mapping of data flows within the organisation, a number of issues remained. Specifically; the update of key corporate policies in relation to Information Governance, the lack of review of contracts to ensure appropriate Information Governance clauses are included, the lack of update and monitoring of training uptake and the lack of action plans to address any of the areas identified contributed to the opinion.</p> <p>A follow-up report was presented by the Service Lead Digital and Strategic IT to the Audit and Corporate Governance Committee in March 2018, where he confirmed that there were only two actions still outstanding from Internal Audit’s recommendations. This has been reflected in the Annual Governance Statement. In addition, management has informed us that robust processes were in place in prepare for the implementation of General Data Protection Regulations in May 2018. We are awaiting evidence to support this.</p> <p><i>Risk Management</i></p> <p>In the prior year, Internal Audit concluded that 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.</p> <p>For 2017/18, management commissioned an advisory review from Internal Audit. Internal Audit assisted the Council in refreshing the corporate risk register to take account of changes in the business, including organisational structure changes and changes in the external environment such as legislation. This was achieved via a series of interviews and workshops with the Council, management team and supporting officers, which resulted in the agreement of a revised set of corporate risks for the Council. This represents an improvement from the position 12 months previously.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2 <b>Internal control and governance arrangements (continued)</b>	As above.	<p><b>Budgetary control</b></p> <p>In the prior year, Internal Audit concluded that 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.</p> <p>This year, there have been improvements in the process and Internal Audit issued a ‘reasonable assurance’ report.</p> <p><b>Compliance with the Local Government Transparency Code</b></p> <p>In the prior year, the Council failed to ensure that information that must be published by the Council was published on a timely basis.</p> <p>This, year, whilst a few of Internal Audit’s recommendations in this area have not yet been fully implemented and we are aware that expenditure data was not always published regularly in the first part of the year, a process is now in place to publish the data on a quarterly basis, which is considered acceptable.</p> <p><b>Constitution and associated policies</b></p> <p>In the prior year we found that the Council had failed to ensure that the Constitution and associated policies were sufficiently up to date and robust, and that weaknesses in Human Resources procedures during the year were partly due to policies being out of date, not clear enough or not appropriately applied.</p> <p>This year, the Council has continued with its programme of updating its Constitution and underlying policies and, with the exception of Information Governance policies reported above, we are not aware of any weaknesses in procedures as a result of policies not being up to date.</p> <p><b>Whistleblowing procedures and complaints</b></p> <p>In the prior year, we concluded that 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.</p> <p>This year, whilst we are aware of some continuing dissatisfaction with the Council’s responses to complaints, we are satisfied that the Council generally has reasonable procedures in place to respond to complaints received. There is now improved reporting to the Audit and Corporate Governance Committee of activity undertaken in relation to complaints received under the Councillors’ Code of Conduct.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>2 Internal control and governance arrangements (continued)</p>	<p>As above.</p>	<p><b><i>Preparation of the Statement of Accounts</i></b></p> <p>Our audit of the 2016/17 financial statements, which were prepared during 2017/18, identified a large number of misstatements which had to be amended in the final financial statements. This included three material misstatements in the primary statements, seven notes that were materially misstated, a number of other non-trivial adjustments and thirteen unadjusted misstatements. We also identified weaknesses in the quality of the underlying working papers.</p> <p>Action was taken to address capacity issues in the finance team towards the end of the year and this has resulted in improvements in the presentation of the 2017/18 financial statements. This is, however, still significant scope for improvement in the quality of the underlying working papers to ensure that the financial statements are free from material error, particularly in areas such as non-current assets, cash and cash equivalents and debtors and creditors analyses.</p> <p>We believe that this is evidence of significant weaknesses in arrangements during 2017/18 to support informed decision making.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>3 <b>Senior management and councillors</b></p>	<p>There has been a high and sudden turnover of a number of members of the leadership team and key operating personnel during 2017/18, alongside an organisation restructuring. Changes in senior officers include the Chief Executive and the Leader of the Council.</p> <p>The Council's risk register acknowledges that changes in senior officers may result in a loss of corporate memory, deterioration in the control framework and decisions being made without a firm policy footing.</p> <p>Our Audit Plan identified a risk that the Council may not respond appropriately to the changes during the year. This could lead to reduced performance and weaknesses in informed decision making.</p> <p>We assessed how effectively the Council has responded to the changes in its leadership and management team during the year, by review of risk management and other processes supporting key decision making during the year.</p>	<p>Whilst there has been a high and sudden turnover of a number of members of the leadership team and key operating personnel during 2017/18, alongside an organisation restructuring, we are satisfied that this has not led to any significant reduced performance or weaknesses in informed decision making.</p> <p>The number of senior officer posts filled by interims has reduced compared to the prior year, which should help to bring stability to the Council in the longer term.</p>

# USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>4 Children's social care services</p>	<p>Our 2016/17 use of resources conclusion was qualified due to ongoing significant weaknesses in Children's Social Care Services. Ofsted concluded that improvements in the service have largely been achieved after 31 March 2017 and there is still some way to go before vulnerable children can rely on a service that meets their needs and reduces the risks that they experience.</p> <p>In our Audit Plan we identified a continuing risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2017/18, in managing the contract with the Trust. In the absence of sufficient evidence of improvement, we may need to qualify our use of resources conclusion again.</p> <p>We have gained an understanding of action taken by the Council and Slough Children's Services Trust during 2017/18 to address Ofsted's recommendations and seek evidence of improved processes.</p>	<p><b>Overall conclusion regarding partnership working</b></p> <p>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 2017/18, Ofsted has concluded that the quality of management oversight and decision-making continues to require improvement.</p> <p>We are therefore proposing to qualify our use of resources opinion in relation to partnership working</p> <p><b>Detailed findings</b></p> <p>Since our 2016/17 audit completion report presented to the Audit and Corporate Governance Committee in December 2017, Ofsted has carried out two further monitoring visits.</p> <p>In January 2018, they concluded "Based on the evidence gathered during the visit, we identified areas of strength, areas where improvement is occurring, and some areas where we considered the progress has not been swift enough." They reported that the Council and Trust are continuing to make progress in some areas to improve services for children. Social work practice is improving. Assessments, plans and reviews are evident in the vast majority of children's cases. Nevertheless, like previous monitoring visits, inspectors identified weaknesses in the effectiveness of management oversight. This continues to be an area of practice that requires attention. This has hampered progress in some areas and consequently, the pace of improvement has been slow.</p> <p>A follow up visit occurred in May 2018 where Ofsted concluded that there continues to be positive improvement in the services for children but it is still not consistently good enough for a small number of children. Senior leaders have continued to respond to the findings from previous monitoring visits and the recommendations from the single inspection framework in 2016. In particular, leaders have worked purposely and carefully to ensure that early permanence planning is embedded in practice across the children's workforce.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>4 Children's social care services (continued)</p>	<p>As above.</p>	<p>Despite these improvements, Ofsted has concluded that the quality of management oversight and decision-making remains an area requiring improvement.</p> <p>It is clear from our enquiries of the Council that there are arrangements in place to promote closer working with the Children's Trust. These include regular meetings between finance staff of the Council and the Trust and the Children's Trust Chief Executive attending corporate management team meetings to promote links between them. These arrangements support the continued improvement in joint working arrangements between the Trust and the Council.</p> <p>However, until Ofsted improves its overall rating of the service, we are not satisfied that the service is offering value for money.</p>

# 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 £53.5 million understatement of income and expenditure as a result of housing benefit subsidy income incorrectly netted off against housing benefit expenditure
- £7.9 million understatement of schools income and expenditure due to incorrect coding of schools income to expenditure under children, learning, and skills directorate.

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
- Property plant and equipment note
- 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, did not change the deficit on the provision of services.

### UNADJUSTED AUDIT DIFFERENCES

There are eight unadjusted audit differences in the financial statements identified by our audit work which, when combined with the impact of brought forward unadjusted errors, would if corrected increase the deficit on the provision of services by £4.246 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

	£'000	INCOME AND EXPENDITURE / FUND ACCOUNT		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
Deficit on provision of services for the year before adjustments	67,414				
DR Property, plant and equipment - Council dwellings				2,112	
DR Property, plant and equipment - Other land and buildings				2,324	
CR Revaluation reserve					(2,218)
CR Expenditure (Reversal of impairment)	(2,218)		(2,218)		
DR General Fund (through the Movement in Reserves Statement)				2,218	
CR Capital adjustment account					(2,218)
<b>(1) Incorrect posting of property valuations from the valuer's certificate (estimated misstatement)</b>					
DR Loss on disposal(HRA)	3,497	3,497			
CR Land and buildings(HRA )					(3,497)
DR Capital adjustment account				3,497	
CR General Fund (through the Movement in Reserves Statement)					(3,497)
<b>(2) HRA property demolished and not removed from the asset register (factual misstatement)</b>					

## APPENDIX I: AUDIT DIFFERENCES

	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
	DR	CR	DR	CR
	£'000	£'000	£'000	£'000
DR Council dwellings			347	
CR Assets under Construction (HRA Asset)				(1,053)
DR Expenditure (HRA - impairment)	706	706		
DR Capital adjustment account			706	
CR General Fund (through the Movement in Reserves Statement)				(706)
<b>(3) Council dwellings incorrectly classified as assets under construction (factual misstatement)</b>				
DR Long term investments			170	
DR Short term investments			150	
CR Available-for-sale reserve				(320)
<b>(4) Available-for-sale financial instruments not measured at fair value at year end (estimated misstatement)</b>				
DR Non domestic rates income		500		
CR Non-ring fenced government grants				(500)
<b>(5) Misclassification of grant income (factual misstatement)</b>				

## APPENDIX I: AUDIT DIFFERENCES

	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
DR Debtors				288	
CR Expenditure (Finance and resources)	(288)		(288)		
<b>(6) Overstatement of housing benefits debtors impairment allowance (estimated misstatement)</b>					
DR Income (Place and Development)		4,800			
CR Expenditure (Place and Development)			(4,800)		
<b>(7) Internal income and expenditure included in cost of services (factual misstatement)</b>					
DR Creditor (NHS bodies)				850	
CR Debtor (NHS bodies)					(850)
<b>(8) Incorrect reversal of debtor raised during the year (factual misstatement)</b>					
<b>TOTAL CURRENT YEAR UNADJUSTED AUDIT DIFFERENCES</b>	<b>1,697</b>	<b>9,503</b>	<b>(7,806)</b>	<b>12,662</b>	<b>(14,359)</b>
<b>IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (see following pages)</b>	<b>2,549</b>	<b>4,112</b>	<b>(1,563)</b>	<b>1,472</b>	<b>(4,021)</b>
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>4,246</b>	<b>13,615</b>	<b>(9,369)</b>	<b>14,134</b>	<b>(18,380)</b>

## 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)	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
DR Property, plant and equipment - Council dwellings				293	
DR Property, plant and equipment - Other land and buildings				469	
CR Revaluation reserve					(381)
CR Capital adjustment account					(381)
DR Expenditure (Reversal of impairment)		381			
CR Opening Capital adjustment account					(381)
(1) Misstatement due to incorrect posting of property valuations from the valuer's certificate (overstatement of expenditure in prior year means understatement in current year)	381				
DR Opening schools reserves					(257)
CR Income - Children, learning and skills		1,465			
CR Expenditure - Children, learning and skills			(1,208)		
(2) Misstatement due to incorrect consolidation of schools' balances and transactions (net overstatement of expenditure in prior year means understatement in current year)	257				

## 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)	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
CR Property, plant and equipment - accumulated depreciation					(135)
DR Capital Adjustment Account				135	
CR Expenditure (Depreciation)			(135)		
DR Opening capital adjustment account				135	
(3) Misstatement due to depreciation being omitted on four assets incorrectly recorded as having nil useful economic lives (understatement of expenditure in prior year means overstatement in current year)	(135)				
CR Taxation and non-specific grant income - NDR income			(220)		
CR Provisions - Non domestic rates appeals					(220)
DR Collection Fund Adjustment Account				220	
DR Opening Collection fund adjustment account				220	
(4) Understatement of the non domestic rates appeals (overstatement of income in prior year means understatement in current year)	(220)				

## 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		STATEMENT OF FINANCIAL POSITION	
		£'000	DR	CR	DR
DR Income			2,266		
CR Opening general fund balance					(2,266)
(5)	Potential understatement of Collection Fund debtors and income due to balances not being clearly identifiable in the debtors analysis (understatement of income in prior year means overstatement in current year)	2,266			
<b>TOTAL IMPACT ON CURRENT YEAR DEFICIT</b>		<b>2,549</b>	<b>4,112</b>	<b>(1,563)</b>	<b>(4,021)</b>

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>FINANCIAL STATEMENTS</b>					
<b>Quality of audit working papers</b>	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 a number of the working papers provided for the audit. 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 2017/18 audit to identify the areas where further improvement needs to be made in producing effective working papers.			
<b>Critical review of the draft financial statements</b>	Whilst the overall presentation of the draft financial statements is significantly better than the prior year, they still contain a similar level of inconsistencies compared to the draft statements provided to us in the prior year.	Management should carry out a critical review of the draft financial statements to identify and explain significant variances in income and expenditure between years and to identify any inconsistencies between different parts of the financial statements.			

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>Mapping of debtors and creditors</b>	<p>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.</p> <p>Incorrect working papers to support the mapping of balances within the financial statements could result in material errors.</p>	<p>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.</p>			
<b>Bank reconciliations</b>	<p>As in the prior year, the Council did not provide us with appropriate working papers to support cash and cash equivalent balances, including a breakdown of the reconciling items within the bank reconciliations. 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.</p> <p>The cash balance could be materially misstated if reconciling items are not appropriate timing differences.</p>	<p>Management should review processes for preparing cash and bank analyses and supporting bank reconciliations.</p> <p>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.</p>			



## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Maintenance of the fixed asset register	<p>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.</p> <p>Errors in the fixed asset register could result in a material misstatement in the financial statements.</p> <p>Also the Council could be paying for valuation services on properties it does not own.</p> <p>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.</p> <p>Inaccurate useful economic lives may result in material misstatement of non-current assets.</p>	<p>Management should engage with the property management team to perform an annual review of assets to identify:</p> <ul style="list-style-type: none"> <li>Any assets which are no longer held by the Council (these should be derecognised)</li> <li>Any assets that have changed use (these should be reclassified).</li> </ul> <p>Management should reconcile the property valuer’s valuations to the fixed asset register.</p> <p>A formal review of the useful economic lives of the Council’s non-current assets should also be carried out each year.</p>			

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>Password security</b>	<p>We reviewed the password security parameters for Academy, CIPFA Asset Management System and Agresso. The password settings for these systems were deemed to be weak as a result of:</p> <ul style="list-style-type: none"> <li>• No minimum password length</li> <li>• Password duration not set</li> <li>• Password history not enabled.</li> </ul> <p>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.</p>	<p>Password settings should be updated to ensure that:</p> <ul style="list-style-type: none"> <li>• Password duration is at maximum of 30 days</li> <li>• Password length should be a minimum of 8 characters</li> <li>• Password history settings enforced.</li> </ul>			

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>ANNUAL REPORT AND ACCOUNTS</b>					
<b>User access</b>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>This should be signed by management to verify that this allocation is appropriate.</p> <p>If any changes are required as a result of this review, this should be requested via the formal request for user modification process</p>			

## APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Council Materiality	£6,800,000	£6,700,000
Clearly trivial threshold	£136,000	£134,000

Planning materiality for the Council has been based on 1.6% of the prior year gross expenditure  
Final materiality based on 1.6% of gross expenditure per draft accounts adjusted for the income and expenditure netting off

## APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Corporate Governance Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

## APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee - scale fee	127,523	127,523	127,523	
Code audit fee - additional fees for audit overruns	TBC	-	52,891	We will assess the impact on our 2017/18 audit costs of continuing weaknesses in working papers provided for the audit, when we have completed the audit, and discuss any additional fee requests with management.
Fee for reporting on the housing benefits subsidy claim	30,000	30,000	30,000	
<b>TOTAL AUDIT AND CERTIFICATION FEES</b>	<b>157,523</b>	<b>157,523</b>	<b>210,414</b>	
• Pooling of housing capital receipts return	1,800	1,800	1,800	
• Teachers' pension return	3,535	3,535	3,535	
<b>TOTAL ASSURANCE SERVICES</b>	<b>162,858</b>	<b>162,858</b>	<b>215,749</b>	

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

XX July 2018

Dear Sirs

### Financial statements of Slough Borough Council for the year ended 31 March 2018

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 2018 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 2018 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:

RPI increase	3.3%
CPI increase	2.3% <sup>2</sup>
Salary increase	3.8%
Discount rate	2.60%
Mortality - LGPS:	
- Male current	25.3 years
- Female current	27.5 years
- Male retired	23.1 years
- Female retired	25.2 years
Commutation	50%            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.

## APPENDIX VI: DRAFT REPRESENTATION LETTER

### 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.

### 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 2018 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 officer)

XX July 2018

Councillor Dhaliwal

Signed on behalf of the Audit & Corporate Governance Committee

XX July 2018

## APPENDIX VII: AUDIT QUALITY

### **BDO is totally committed to audit quality**

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

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

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

We have also implemented additional quality control review processes for all listed and public interest audits.

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

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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