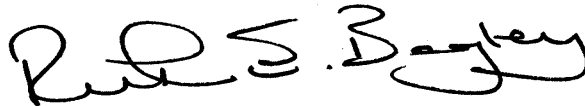


Date of issue: 14th January, 2011

MEETING	AUDIT COMMITTEE (Councillors Kwatra (Chair), Chohan, Dhillon, Haines, Small and Walsh)
DATE AND TIME:	TUESDAY, 25TH JANUARY, 2011 AT 6.30 PM
VENUE:	COMMITTEE ROOM 2, TOWN HALL, BATH ROAD, SLOUGH
DEMOCRATIC SERVICES OFFICER: (for all enquiries)	CATHERINE MEEK 01753 875011

NOTICE OF MEETING

You are requested to attend the above Meeting at the time and date indicated to deal with the business set out in the following agenda.



RUTH BAGLEY
Chief Executive

AGENDA

PART 1

<u>AGENDA</u> <u>ITEM</u>	<u>REPORT TITLE</u>	<u>PAGE</u>	<u>WARD</u>
	Apologies for absence.		
1.	Declarations of Interest		

<u>AGENDA ITEM</u>	<u>REPORT TITLE</u>	<u>PAGE</u>	<u>WARD</u>
2.	Minutes of the last meeting held on 25th November 2010	1 - 4	
3.	Annual Audit Letter 2009/2010	5 - 24	
4.	Certification of Claims and Returns 2009/2010	25 - 36	
5.	Annual Audit Plan 2010/2011	37 - 66	
6.	Members Attendance Record	67 - 68	
7.	Date of the next meeting - 7 March 2011		

Press and Public

You are welcome to attend this meeting which is open to the press and public, as an observer. You will however be asked to leave before the Committee considers any items in the Part II agenda. Special facilities may be made available for disabled or non-English speaking persons. Please contact the Democratic Services Officer shown above for further details.

Audit Committee – Meeting held on Thursday, 25th November, 2010.

Present:- Mr Kwatra (Chair), Councillors Chohan, Dhillon, Haines and Small

Apologies for Absence:- Councillor Walsh

PART I

22. Declarations of Interest

None were declared.

23. Minutes of the last meeting held on 19th October 2010

The Minutes of the last meeting of the Committee held on 19th October 2010 were agreed as a correct record.

24. Matters Arising

Committee Members were reminded that, as agreed at the last Committee meeting, the Directors responsible for the service areas relating to Emergency Planning and Appointeeship were present to discuss the audits relating to these areas which had received a Limited Assurance Opinion.

Denise Alder, Strategic Director for Green and Built Environment, explained to the Committee the circumstances relating to why the Emergency Planning service had received a Limited Assurance Opinion. It was noted that immediately following the departure of the Emergency Planning Officer, preparations to deal with swine flu had to be implemented. In addition, the current Emergency Planning Officer was not appointed to the post until November 2010, initially on a part-time basis. It was stated that much of the work in relation to emergency planning that was being carried out at that time was reactive work as opposed to planning and policy work. However, remedial action had been taken and a training programme was in place which would ensure that emergency planning for Slough was more than adequate and fit for purpose. Members thanked the Director for her update which was noted.

Referring to the Limited Assurance Opinion that was given for Appointeeship, Corporate Director of Community and Wellbeing, Jane Wood, stated that some of the recommendations following the audit review had been fully implemented, including procedure and guidance that was in place for Appointeeship. However, a number of the recommendations were still being implemented and Members were informed that an individual had been trained in order to cover any issues that were required in relation to Appointeeship. It was noted that the issue of Appointeeship affected a limited number of people in Slough and progress and development was being made with regard to this area.

Audit Committee - 25.11.10

The update was noted and the Director was thanked for attending and providing an update to the Committee.

25. Proposals for future delivery of Internal Audit - Presentation by Strategic Director of Resources

The Strategic Director of Resources reported that the Council was facing an enormous financial challenge and a number of none frontline services were being reviewed, of which Internal Audit was a part of. It was stated that when reviewing the service it was noted that there were too many audit days that had been allocated which needed to be reduced and a number of options were being explored. It was noted that whilst audit days were still required these would be targeted in specific areas. A Member expressed concern in the level of reduction in the number of audit days that was being proposed. The Strategic Director of Resources stated that the audits would be tailored to meet the risk profiles for Slough Borough Council. It was stated that in the various options that had been reviewed and through knowledge of the level of internal audit delivery at similar local authorities it was estimated that the internal audit plan for Slough Borough Council could potentially be delivered within 750 internal audit days.

Current costs relating to the delivery of the Internal Audit services were outlined, which included employee costs. The various proposals and options in relation to internal audit and risk management were outlined and Members were informed that the most favourable option with regard to achieving savings, whilst at the same time delivering an effective service, included a combined audit and investigations team. It was anticipated that the total proposed savings should this option be implemented would be approximately £234,000. The Strategic Director of Resources stated that this option would enable retention of the management of the audit plan within the Council under the Assistant Director for Finance and Audit and also enable further efficiencies as a result of reviewing the wider team resources.

It was noted that the Council's Investigations Team currently included 4.8 investigators. Although this was considerably higher than neighbouring authorities members were informed that the Council conducted its own financial investigations and received a higher number of referrals in comparison to other local authorities in Berkshire. It was noted that in 2008/2009 Wokingham Borough Council received 362 referrals compared with 765 referrals received in Slough.

It was noted that the Council currently employed 1.5 accredited financial investigators, who under the Home Office's proceeds of Crime Act Incentive Scheme were able to recover up to 37.5% of confiscated assets following the rest of criminals who benefited from local crimes and reinvest the proceeds back into local public services. It was highlighted that the use of internal financial investigators was seen as a positive step in tackling fraud locally and demonstrated Slough Borough Council as a forward thinking council in this area. It was brought to Members attention that this approach had been commended by the Local Government Association and the Audit Commission.

Audit Committee - 25.11.10

The Strategic Director of Resources outlined that bids would be invited from three framework arrangements (Deloitte, KPMG and PWC) and also invite the shared service proposal to submit a bid for the supply of the remaining audit days outside the capacity of the reduced in-house team.

Committee Members were informed that the option as highlighted was agreed by Cabinet and was currently subject to consultation with unions and staff members.

Resolved – That details of the presentation be noted.

26. Training for Members - Presentation by Deloitte

Members were informed that in accordance with CIPFA requirements training was required for Audit Committee Members on a continuous basis. It was proposed that prior to the next scheduled meeting of the Audit Committee training would be delivered to Committee Members as to their role and responsibilities as members of the Audit Committee.

Resolved – Agreed that training be provided immediately prior to the next scheduled meeting on Monday 7th March 2011 at 6.00 pm.

27. Update on Delivery of Internal Audit Plan

Members were provided with an update on delivery of the Internal Audit Plan and noted that a total of 95 audit reports were due in the Audit Plan 2010/11. A detailed breakdown with regard to the reports was provided and included 28 reports that had been finalised, 10 were in draft form, 39 were work in progress; whilst work on the outstanding audit reports was due in Quarter Four.

Resolved – That the update be noted.

28. Members Attendance Record

Noted.

29. Date of the next meeting - Monday 7 March 2011

Chair

(Note: The Meeting opened at 6.30 pm and closed at 8.05 pm)

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Annual Audit Letter

Slough Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 3 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

Audit opinion and financial statements

1 I issued my audit report on the 30 September 2010. The report included an unqualified opinion on the financial statements for the year ending 31 March 2010. The arrangements to produce your financial statements were good and the statements contained no material errors.

Value for money

2 I also issued an unqualified value for money conclusion stating that in all significant respects, Slough Borough Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Current and future challenges

3 The economic climate and the public spending pressures are having a significant effect on councils and the services they provide. The Government's spending reviews will have an impact on the Council's financial plans over the medium term.

4 It remains vital to ensure the Council is making best use of its resources, and is working closely with its partners and with other councils to deliver efficient and effective services for local people. The Council has started to develop detailed plans to make more effective use of its resources and to reduce overheads and back office costs. Under the Council's change programme, this will involve redesigning services so that they can deliver the required outcomes with fewer resources - both in staff numbers and from other savings, for example reducing office space.

5 In this respect the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. I intend to review the Council's financial resilience within my audit of the 2010/11 accounts.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, meeting the statutory target date.

Overall conclusion from the audit

6 The arrangements to produce your financial statements remain sound and I did not identify any material misstatements in the Council's accounts this year. I identified several non-material misstatements and officers adjusted most of them in the revised financial statements.

7 Officers decided not to adjust one item, and the Council agreed that officers should account for this issue in 2010/11.

8 During my audit planning process I raised a number of risks that I would need to review during my audit, including:

- whether there was sufficient capacity within the accountancy section to manage the closedown of accounts effectively;
- accounting for PFI assets and liabilities and changes in accounting for business rates and council tax;
- weaknesses in the internal control environment.

The Council has responded to these risks appropriately.

9 The finance function was strengthened during the year and structural improvements introduced. As a consequence the Council achieved a better closedown of year end accounts in 2009/10 and this enabled a smoother year end audit.

10 I identified opportunities to improve accounting practice and financial management and I am pleased to report that officers have acted on my recommendations.

11 You re-approved your financial statements on 30 September 2010 and I then issued my audit report containing an unqualified opinion.

Matters of internal control

12 I identified some weaknesses in the design or operation of an internal control that could result in a material error in your financial statements. These related to your ability to be confident that; all income recorded in your accounts is actually due to the Council; information in your general ledger is complete on a month by month basis; and that the rents due for the year recorded on the new rent system and associated rent arrears are correctly stated.

13 Since my work was completed the Council has carried out a review of its financial management arrangements and has introduced improvements that will re-align responsibilities and increase accountability for the operation of system controls.

14 I am assured that the newly acquired rent system is now stabilised and that reconciliations have addressed, and rectified, all inaccuracies in the rent information transferred from the previous rent system.

15 The Council needs to be satisfied that future significant system transfers and upgrades are planned and managed to secure internal control through the implementation lifecycle.

Recommendation

R1 The Council should ensure action is taken in response to the recommendations made in my Annual Governance Report.

The Pension Fund deficit

16 The Statement of Accounts, prepared in accordance with FRS 17 – Retirement Benefits, show a net pension liability of £165 million. This has significantly increased from the 2008/09 liability of £84 million due to the significant reductions in bond yields which have increased the liabilities of the fund, offset by smaller increases in market values of assets.

17 The 2010 triennial valuation will assess the scheme liabilities and funding position over the longer term, including the favourable impact of the change from using the Retail Price Index to the Consumer Price Index in calculating future pension liabilities. The actuarial review is also likely to take account of government pension policy changes in response to the Hutton report. Increased contributions may be required to ensure the pension scheme maintains an appropriate long-run funding level.

The Council's Icelandic banks investments

18 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £2.5 million deposited with Heritable Bank at that point. Based on the latest information available and, in accordance with accounting practice, the Council considered that it was appropriate to make an impairment adjustment for the deposits in its 2008/09 accounts.

19 The impairment was reviewed during 2009/10 and the impairment charge reduced by £152,000 leaving an impairment provision in the accounts totalling £404,000. Information received from the Administrators indicates that the Council is likely to recover a total of 85 per cent by the end of 2012/13 and during 2009/10 the Council received three dividends totalling £902k from the Administrators representing 36% of the Council's investments.

20 The Council has not taken advantage of government regulations which allow the impact of the impairment charge relating to this investment to be deferred until 2010/11. Therefore, impairment losses have already been charged to the general fund and any impact on future years' accounts should not be significant.

Adoption of International Financial Reporting Standards

21 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This marks a significant change in the basis of reporting the figures in the annual accounts and the format of some of the core statements.

22 The Audit Commission has undertaken a national study on the transition to IFRS in local government. This study aims to assess councils' progress towards preparing IFRS-based accounts in two phases.

23 In October 2009 I completed the phase-one survey at the Council, and assessed the Council as 'green'. I concluded that the finance team were well aware of reporting requirements and were preparing for future developments including readiness for the implementation of International Financial Reporting Standards

24 In July this year I carried out the phase-two survey to assess the Council's progress, and I decided the Council was an 'amber' risk. This was because, although the Council had made good progress in tackling challenging issues, member involvement was limited and at the date of my assessment substantial work remained to be done in relation to the treatment of non-current assets.

25 The Audit Commission briefing paper ;Progress on the transition to IFRS; published in October 2010, which draws on the July survey shows that more than 50 per cent of other local authorities are in a similar position to the Council, assessed as having minor issues but being on track to complete key steps in IFRS transition by 31 December 2010.

26 Whilst the task facing the Council remains challenging and there is more that needs to be done, I am confident that the Council will meet its statutory responsibilities for first time reporting under IFRS.

Recommendation

R2 Members should receive an update on progress in implementing changes associated with first time reporting under IFRS.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

27 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

28 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

29 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

30 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

31 Table 1 provides a summary of my findings at the Council in respect of these specified criteria.

Table 1: **Assessment for VFM conclusion**

The specified use of resources criteria were achieved

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	
Governing the business	Yes
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

32 Based on the above, I therefore issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources for the 2009/10 year.

Assessment of arrangements

33 For the lines of enquiry that I considered, the Council delivered achievements and improvements in the 2009/10 year in that:

- The Council has extended its financial planning timescale to include a three year time horizon extending to five years from 2011/12.
- Links between financial and service planning have been strengthened and the Council is engaging with partners to improve financial planning.
- The use of benchmarking information has contributed to improved outcomes in key services.
- There has been good progress towards identifying specific efficiency savings to be delivered in each of the next three years.
- The Council has examined different options for securing and delivering services and can demonstrate improvements in the way it purchases and delivers services that have led to reduced costs and greater efficiency.
- There are productive working relationships between Members and officers and these are underpinned by an officer/member code of conduct and an updated employee code.

- The Council has an organisation-wide approach to managing assets as a corporate resource and is actively using its assets to invest in its priority area of regeneration.
- The Council has implemented its Job Evaluation and Harmonisation programme with new contracts in place for the majority of staff by April 2010.
- Senior management is supportive of organisational change and training programmes are in place to help line managers to deal with the change management agenda.

Opportunities for further improvement

34 I suggest the Council should focus further improvements in its arrangements to secure value for money in the use of resources in the following areas:

Managing finances

- Develop a more systematic approach to benchmarking and the use of unit cost information in identifying cost savings that can be applied Council-wide.
- Draw upon the lessons learned from the shared services venture which the council withdrew from earlier this year and develop a strategic document which informs the direction for the management and delivery of future support service development projects as part of the Council's change agenda.

Governance arrangements

- Achieve further economies in procurement through the greater use of procurement performance indicators to monitor progress and assess outcomes.
- Exploit opportunities to aggregate demand and reduce costs by setting up central contracts for commonly used items are fully exploited.
- Improve data quality arrangements by undertaking an assessment of systems and processes for data and performance information provided by external bodies to ensure compliance with the Council's standards for data quality.
- Ensure the Council's scrutiny processes operate efficiently and effectively in contributing to internal challenge and in holding the Cabinet to account.
- Develop the role of the Audit Committee and undertake a formal assessment of its effectiveness against the CIPFA statement on the role of Audit Committees in Local Government.
- Review existing risk management arrangements and the effectiveness of the current corporate structure.
- Address weaknesses in the Council's overall control environment identified by the work of Internal Audit and my review of financial systems and introduce standards of performance can be applied consistently across all departments and can be monitored at a corporate level.

- Review the Council's severance policy and delegated arrangements to ensure that these are clear and unambiguous and are reflective of best practice.

Managing resources

- More effectively utilise the Council's workforce; focusing on the development of council wide workforce plan with partners so that resources can be optimised cross sectors and increasing the number of appraisals taking place so that staff are clear how their roles contribute to strategic objectives.

Recommendation

- R3** The Council should consider the opportunities for improvement identified in my use of resources review and develop plans to address areas of corporate priority.
-

Approach to local value for money work from 2010/11

35 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

36 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

37 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Public rights of challenge

38 During my audit I received questions and requests for audit action from two local electors these are outlined in the following paragraphs.

39 One elector raised a query about the realisation of best value arising from the Council's decision to disposal of land at Upton Court Park. I was able to reassure the elector that I was satisfied from my enquiries that the Council had acted appropriately pursuant to its duties and responsibilities in relation to the disposal of this land.

40 Another local elector raised queries about the award of early retirement payments to two senior Council officers. I obtained assurance that the severance payments made to both officers reflected their statutory entitlement under the Local Governance Pension Scheme and was a decision properly taken by officers and in accordance with the Council's internal procedures. However, I was of the view that existing policies and procedures could be improved to remove ambiguity and to clarify the respective roles of members and officers.

41 There were no matters arising from my audit that required use of the special reporting powers set out in the Audit Commission Act. Accordingly I was able to certify completion of my audit on 30 September 2010.

Current and future challenges

The Council's Finances

42 The Council faced sizeable cost pressures at the start of the 2009/10 financial year. In order to deliver a balanced budget the Council had to identify, implement and deliver cost reduction measures and efficiencies totalling £10.3 million.

43 As the 2009/10 year progressed the Council faced further pressure from reductions in income as a result of the national economic climate. This was offset by a reduction in borrowing costs so the overall impact was minimised. Nevertheless, delivery of a balanced position still required sound financial management and the net outcome was that the Council achieved its efficiency targets for the year; reporting a small under-spend of £253,000 against its revised budget.

44 As at 31 March 2010, General Fund reserves stood at £5.4 million. The Housing Revenue Account (HRA) overspent by £1.9 million against its approved net budget, leaving balances of £9.0 million as at 31 March 2010. The balances on both funds, notwithstanding the loss on the HRA remained at a prudent level at the year end.

45 Capital resources remained under pressure in the year due to the reduction in capital receipts linked to the downturn in the property market and the high level of capital investment required to improve assets. The Council's strategy was a combination of re-profiling and reducing the size of the capital programme during the year to reflect these downward pressures.

46 Looking ahead to 2010/11, I am assured that the Council took into account major potential financial risks, known growth pressures and quantified the efficiency savings required to deliver a balanced position including plans as to how these were to be delivered, at the inception of its original budget for the year. The Council was in a sound position at the start of 2010/11 but the government announcement in June 2010 that substantial grant funding reductions were to be imposed across the public sector, signalled an immediate financial impact for the Council of £3.3 million which meant that it had to find further savings in addition to those already built into the original budget.

47 Since then, the Council has carried out an in depth review of the medium and longer term implications of the grant funding reductions and comprehensive spending review published in October 2010 and has considered what this means for its finances over the next four financial years; 2011/12 to 2014/15. The Council estimates that it will need to reduce its overall costs during this period by £23.9 million. Savings of £4.4 million have already been built into the 2011/12 budget thereby leaving the Council with a cumulative funding gap of £19.5 million.

48 The Council recognises that the unprecedented level of change required to meet this scale of challenge will require significant planning and lead in times. This has driven a front loaded savings profile, targeting back office and corporate service areas. The Council has identified a range of initiatives covering six key areas of activity which it anticipates will generate £6.9 million per annum of savings opportunities by the 31 March 2011. Parallel to this short term savings realisation programme, the service transformation agenda in operational areas to deliver future years savings is underway with detail yet to be determined, to close the forecast funding gap of £12.6 million.

49 The Council has already faced some difficult choices and taken difficult decisions in balancing the 2011/12 budget and in positioning itself for the future. Part of the Council's efficiency agenda involves major re-organisational reform which will see major changes in the way the Council operates.

50 The full scale of the financial challenge facing the Council will not become clear until after the government publishes the grant determination in December. In this respect the Council continues to be concerned about the proper measurement of the Borough's population for the calculation of revenue support grant. Nevertheless it is unlikely that the announcement, when made, will make the scale of the task facing the Council any less demanding than the Council's current predictions.

51 My preliminary assessment indicates the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. I will further examine the Council's financial resilience within the scope of my 2010/11 audit.

Closing remarks

52 I have discussed and agreed this letter with the Chief Executive and the Strategic Director of Resources. I will present this letter at the Cabinet meeting on the 24 January 2011 and will provide copies to all Councillors.

53 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
Audit Plan Refresh	March 2010
Internal Audit Review	April 2010
Pre-statement Audit Memorandum	June 2010
Annual Governance Report	September 2010
Summary of VFM recommendations	September 2010
Shared Services Review	October 2010
Annual Audit Letter	November 2010

54 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The fees for my audit are levied in accordance with guidance issued by the Audit Commission. The audit fees for 2009/10 are detailed in Appendix 1.

55 The Council has taken a positive and helpful approach to my audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Phil Sharman
District Auditor

November 2010

Appendix 1 Audit fees

	Actual £	Proposed £	Variance
Financial statements and annual governance statement	200,800	200,800	0
Value for money	123,300	123,300	0
Total audit fees	324,100	324,100	0
Non-audit work	0	0	0
Total	324,100	324,100	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

November 2010

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Certification of claims and returns - annual report

Slough Borough Council

Audit 2009/10

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Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

1 Slough Borough Council receives more than £250 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified eight claims with a total value of £204 million, including business rates (£85 million payment to the national pool) and Housing and Council Tax Benefits (£72 million). Of these, we carried out limited testing of three claims and full testing of five claims as required by the Audit Commission's certification instructions. We amended four claims to adjust for errors and issued a qualification letter to the grant-paying body on two claims (BEN01 and HOU21). Appendix 1 sets out a full summary.

Key findings and actions

3 The Housing and Council Tax Benefits Claim required amendment and was qualified. This is discussed in more detail in paragraph 17. A further three claims required minor amendments. The remainder were certified without issue.

4 Many of the errors highlighted by the audit could have been avoided or detected earlier if claims were supported by adequate working papers and subject to quality checks prior to the commencement of the audit. This would not only reduce errors but would lead to a faster and more efficient audit. I have made a recommendation to this effect which is included in appendix 2. The relevant officers of the Council have agreed this recommendation.

Certification fees

5 The fees I charged for grant certification work in 2009/10 were £46,537 as set out in Table 1.

Table 1: **Certification fees**

Claim	Certification fee 2009/10 (£)	Certification fee 2008/09 (£)
Housing and council tax benefit (BEN01)	27,361	26,596
Other Claims	19,176	18,872
Total	46, 537	45,467

Background

6 The Council claims in excess of £205 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by government departments and public bodies to the Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

9 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

10 I am required to assess the control environment for each of the claims or returns certified over £500,000 in value. The assessment includes:

- consideration of the expertise and continuity of staff responsible for compiling claims;
- consideration of action taken to address issues arising in previous years;
- complexity of the scheme and volume of transactions;
- the quality of associated working papers; and
- the general arrangements in place for identifying eligible spending and operating the schemes in accordance with the detailed guidance applicable to them.

11 I placed reliance on the control environment for three claims, the Pooling of Housing Capital Receipts Return (CFB06), the Teachers' Pensions Return (PEN05) and the Housing and Council Tax Benefit return (BEN01).

12 I was unable to place reliance on the control environment of the HRA Subsidy Base Data Return (HOU02) or the HRA Main Subsidy Data return (HOU01) because of changes in key members of staff, the complexity and large volume of transactions, and qualification issues in the previous year concerning reconciliations of housing stock.

13 I was unable to place reliance on the control environment of the General Sure Start grant (EYC02) due to complexity of the grant conditions and the large volume of transactions.

14 My audit of the 2009/10 accounts highlighted specific issues in relation the National Non-Domestic rates system and as such I decided that I was unable to place full reliance on the control environment for the LA01 return.

BEN01 - Housing and Council Tax Benefits Claim

15 I qualified the Housing and Council Tax Benefits return on two counts. The first was a software problem that resulted in minor differences in comparator figures appearing in the claim; the second was the method used to calculate student grant income. Neither of these issues affected the amount of subsidy claimed by the authority.

16 The software problem caused a small discrepancy in the 'in year reconciliation' cells, which are data integrity checks and needs to be remedied to avoid the problem recurring.

17 In six out of the 40 rent allowances cases tested, we found that the Council had incorrectly used the academic year, rather than full calendar year, to calculate student income. This resulted in an overstatement of the claimants' income and as a consequence an understatement of their benefit entitlement.

18 Where this has happened, claimants have effectively been underpaid but there is no impact on the subsidy claim that requires an adjustment in 2009/10 as the amount paid by the Council has been correctly recorded on the subsidy claim. However, the error did give rise to additional work as we were required to extend our testing to assess whether the problem was isolated or widespread.

19 Officers have assured me that benefit entitlements have been adjusted and steps taken to ensure that student grant income will be correctly computed in the future.

Disabled Facilities Grant (HOU21)

20 I qualified the Disabled Facilities grant because officers used the wrong system report to compile the claim, which included non qualifying expenditure. Normally officers would have been able to amend the claim prior to the submission deadline but on this occasion they were unable to process the required changes because the corrections were attempted at the last minute and there were problems with the electronic submission procedure.

21 A qualification could have been avoided had error been detected earlier and the electronic amendments completed in good time. However, working papers in support of this claim were not available at the commencement of the audit.

Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit (BEN01)	71,530,189	N/A subject to mandatory testing	Yes	Yes
HRA subsidy Base data return (HOU02)	468,483,075 (stock value)	No	Yes	No
HRA Main Subsidy (HOU01)	32,239,330	No	No	No
Teachers Pension Return (PEN05)	9,410,771	Yes	No	No
General Sure Start grant (EYC02)	3,568,792	No	No	No
National Non-Domestic Rates return (LA03)	85,588,234	No	Yes	No
Pooling of Housing Capital Receipts (CFB06)	1,782,934	Yes	Yes	No

Claims between £100,000 and £500,000

Claim	Value £	Amended	Qualification letter
Disabled Facilities Grant (HOU21)	345,000	No	Yes

Appendix 2 Action plan

Recommendations

Recommendation

Each claim should be supported by a comprehensive set of working papers produced at the compilation stage and available to auditors at the commencement of the audit.

Responsibility	Head of Central Finance
Priority	High
Agreed	Yes
Date	10 January 2011
Comments	In advance of grant claims being submitted for audit a file is to be produced for review and sign off by the Head of Central Finance.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

January 2011

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Audit plan

Slough Borough Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Fee for the audit

The fee for the audit is £343,500, as indicated in my letter of 12 April 2010.

4 The Audit Commission scale fee for a council with a similar gross spend to Slough is £284,500. The fee proposed for 2010/11 is 22 per cent above the scale fee and is within the normal level of variation specified by the Commission. This level of fee has been maintained at the level set for 2009/10; that is 22 per cent above the scale fee for that year due to continuing concerns about the Council's key financial systems. However, there is scope for the Council to reduce its fee in future years. (Please see below for action the Council is taking to reduce its audit fee).

5 The Commission wrote to all audited bodies, on 9 August 2010, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed.

6 The Audit Commission has now issued its consultation paper on its proposed work programme and audit fee for 2011/12. In this paper the Commission explains that rebates for 2010/11 are being paid as a result of the Government's announcement that it did not wish work on Comprehensive Area Assessment (CAA) to continue, and in recognition of the introduction of a more focused approach to auditors' value for money work. Please note that the audit fee quoted above does not include this rebate which will be notified to you directly and processed as a separate adjustment by the Commission

7 Changes in International Auditing Standards will increase the audit procedures I need to carry out. In line with the fee proposals for 2010/11, the Audit Commission will absorb the cost of these additional requirements within the above fee.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality working papers will be supplied to support the restatement of 2009/010 balances to comply with International Financial Reporting Standards (IFRS);
- good quality, accurate working papers are available at the start of the financial statements audit; and

- Internal Audit undertakes appropriate work on all material systems and this is available for our review by March 2011.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions the Council could take to reduce its audit fees

11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

12 A key requirement to achieving reductions in audit fees is addressing the weaknesses in internal control that I reported in the 2009/10 Annual Governance Report. Improvement in this area will enable me to place greater reliance on the controls within the Council's key financial systems and reduce the level of substantive year end testing that I need to carry out as a compensatory measure.

13 I am assured that improvements have been made and I will assess the changes that have taken place as part of my pre-statement audit. The extent to which the Council's control environment has been strengthened will directly influence my testing strategy and the amount of audit work I need to perform in the current and future years in order to discharge my responsibilities.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

14 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

15 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

16 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>IFRS translation</p> <p>The re-statement of the 2009/10 accounts and the preparation of 2010/11 accounts in accordance with IFRS represents a significant challenge and risk to the Council.</p> <p>We have assessed the Council's progress to date as reasonable but the lack of member involvement and the complexities of the changes around non current assets and the treatment of leases are matters of potential concern.</p>	<p>Assurances will be obtained through our testing strategy. We will consider the Council's arrangements and its response, initially in January 2011, with follow up work later in the audit cycle as necessary.</p> <p>We will liaise with officers on complex areas and where necessary and without compromise endeavour to provide and accounting view.</p>
<p>Valuation of fixed assets</p> <p>We noted improvement last year in the quality of documentation provided in support of fixed asset valuations.</p> <p>Nevertheless, there were still borderline judgements in relation to the valuation of Council houses and incorrect valuations of community assets. In addition there were delays in processing adjustments and updating the fixed asset register which raised difficulties for the audit.</p> <p>Officers are working to resolve these issues but there could be residual problems.</p> <p>Other complexities include the possible change of use of the Town Hall annex and cyclical revaluation of schools which falls due in this year.</p> <p>IFRS will also introduce changes in the way non-current assets are accounted for which increases the risk of error and misstatement.</p>	<p>Discussions will be held with the Council's Valuer, finance staff and the external auditor to obtain assurances that arrangements for the valuation of assets are in place and are operating effectively; that these properly reflect the changes introduced under IFRS and that year end certification arrangements are adequate to support the entries in the accounts.</p> <p>Discussions will focus on potential risk areas and to agree areas for early testing.</p> <p>We will seek assurances that entries to the fixed asset register are processed efficiently and arrangements in place for the timely reconciliation of the register to underlying records.</p>

Risk area	Audit response
<p>Reliance on systems controls</p> <p>In 2009/10 we identified generic weaknesses in systems, including incomplete reconciliation on GL/system interfaces eg council tax, accounts payable and accounts receivable.</p>	<p>We will review these systems at our interim audit using normal audit procedures. This will involve carrying out walkthrough testing to confirm our understanding of the systems. If these are fit for purpose we will design our testing strategy so as to place reliance on the system controls. Otherwise we will rely once more on year end substantive testing.</p> <p>Officers have agreed improvements and we will make an assessment at the pre-statement audit whether changes have been implemented and previous failures addressed.</p>
<p>Arrears and write-offs of bad debts</p> <p>The Council is reviewing the basis on which NNDR and Sundry Debtors provisions are calculated and the procedures for assessing arrears and the write off of bad debts.</p> <p>Provisions must be retained at a level sufficient to cover a prudent assessment of bad and doubtful debt.</p>	<p>We will review the Council's updated policy for the provision and write off of bad and doubtful debts.</p> <p>We will rely where possible on any work carried out by Internal Audit to ensure that the revised procedures are applied consistently across the Council.</p> <p>We will review the level of year end provisions.</p>
<p>Re-structure of the Finance Team and HRA accounting arrangements</p> <p>Maintaining the resilience of the finance team constitutes a risk.</p> <p>Budget cuts may result in the Council being unable to provide the equivalent level of resources to the closure of accounts as last year.</p> <p>IFRS will increase the workload of the finance team and the re-integration of the housing service now means that accounting for HRA transactions rests exclusively with the Council's finance team this year.</p> <p>Changes in personnel and loss of expertise for the HRA may compound this problem.</p>	<p>We will maintain an on-going dialogue with officers; assess the Council's closedown process and will prepare in collaboration with the Council a revised joint working protocol to ensure that the post statement audit is undertaken in an efficient and effective manner.</p>

Risk area	Audit response
<p>Optimising revenue resources</p> <p>In the current economic climate the Council needs to ensure that it optimises its revenue resources.</p> <p>In so doing however, it needs to be mindful that it continues to act within statutory authority and its regulatory framework. There is a risk that economic pressures could push a Council to the limits of acceptability and legality in determining what changes it may or may not make.</p> <p>Two potential areas identified as part of our planning discussions include:</p> <ul style="list-style-type: none"> ■ potential capitalisation of salary costs; and ■ re-allocation of grant monies from non-VATable contractors to direct commissioning or provision of services to maximise tax concessions. 	<p>We will maintain a close dialogue with finance officers on any proposed changes in accounting policy and will seek to provide an audit view.</p> <p>Any preliminary view is given with the caveat that it will not prejudice any subsequent audit work.</p>

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end. My testing strategy will have regard to the requirements of the new clarified International Standards of Auditing (ISAs) effective for the first time in 2010/11

Testing strategy

17 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

18 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Review of accounting estimates
- Bank reconciliation.
- Valuation of fixed assets.
- Feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

19 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, we expect to be able to use the results of Internal Audit's testing of key financial systems as previously agreed.

IT risk assessment

20 This year I will update my risk assessment of IT arrangements using a revised methodology developed by the Audit Commission. My review will cover the Council's corporate IT systems and will also include small scale office-system developments by user departments.

21 The assessment will cover:

- entry level controls within BSS;
- access security controls;
- data centre and network controls;

- program change controls, new systems acquisition and development; and
- end user computing.

International Standards of Auditing

22 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of these new standards, you can expect to see changes in how my audit team delivers your audit, and in the information they request from you.

23 In summary the main changes you will see relate to:

- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

Journals

24 ISA (UK&I) 330 (The Auditor's Response to Assessed Risks) requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (computer-aided audit techniques), IDea software or Excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related party transactions

25 ISA (UK&I) 550 (Related Parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of your controls to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

26 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); and

- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

27 ISA (UK&I) 265 (Communicating Deficiencies in Internal Control to Those Charged with Governance and Management) is a new standard.

28 If I identify a deficiency in any of your internal controls during the audit, I will undertake further audit testing to decide whether it is significant. If I decide this is the case, I will report it in writing to your Audit Committee, as those charged with governance.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

29 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

30 My initial planning identified some potentially significant risks which I considered might impact upon my value for money conclusion and I set these out in my letter of the 12 April 2010. I have revisited these risks in the light of recent developments including the impact of the government's white paper; Equality and Excellence: Liberating the NHS and have refreshed my audit assessment of the key challenges facing the Council.

31 For each specific risk, I have planned my work so as to consider the arrangements put in place by the Council to mitigate the risk.

32 Specific risks and my response are included in the following table

Table 2: **Specific risks**

Specific VFM conclusion risks identified

Specific risks	Audit response
<p>Medium term financial planning</p> <p>The economic climate and the public spending pressures are having a significant effect on councils and the services they provide. Sustained financial balance and sound underlying financial health will be a difficult challenge for the Council in the present economic climate.</p> <p>The Council has started to develop detailed financial plans to make more effective use of its resources and to reduce overheads and back office costs.</p>	<p>We will consider the Council's medium term financial planning process and the specific risks facing the Council as part of our assessment of the Council's arrangements for securing financial resilience and we will consider the extent to which the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.</p>

Specific risks

Audit response

Cost Improvement and efficiency programmes

The Council has prepared plans to make £6.9 million of savings in 2010/11 as part of the first phase of its cost improvement and efficiency programme with further savings in the following year. This programme is focused on 6 areas of activity and is being delivered on a phased basis with further savings being anticipated in the following financial year.

The programme consists of a series of discrete projects and is designed to achieve the required level of savings with minimal impact on front line services. If the Council is successful in delivering these savings it will achieve its budget position as planned and will position itself well towards a staged approach to the delivery of further savings in the future.

We will carry out a local risk based review of the Council's management of its cost improvement and efficiency programme.

Phase 1 - reviewing how well the Council is managing, monitoring and delivering the current year's programme.

Phase 2 - reviewing how the Council has put together its programme for the next financial year, and how robust and realistic the projects within the programme.

Transactional services

One opportunity the Council wishes to explore as part of its medium term financial plans is externalisation of transactional services. Its aim is to reduce overall costs whilst protecting front line services and service levels.

Current plans are to commence a procurement process to find a partner to establish a regional Transactional Services Hub in Slough with the view to not only providing for the Council's own needs but also providing transactional services to other public sector organisation.

It is important that in taking this venture forward the Council takes full account of the lessons learned in the LG shared venture that the Council withdrew from earlier this year and that mistakes in this project are not repeated.

We will review the Council's proposals to obtain assurances that the lessons learned from the previous shared service venture have been incorporated into current plans.

Management of Capital projects

The Council is involved with partners in significant public capital investment through the Heart of Slough urban regeneration project and other significant contracts.

The scale of public investment is significant and presents challenges for the effective management of capital contracts.

We will carry out a review of the Council's arrangements for the management of capital projects to inform judgements made for 2010 UoR.

We also view this as an opinion risk as we will need to be satisfied that expenditure is accounted for correctly.

Specific risks

Audit response

Housing service

Earlier this year the Council was faced with some difficult decisions in relation to the future of its outsourced housing function. As part of our initial planning we identified this as a specific risk; and sought assurances that Council had appropriate arrangements in place to select the right model in the local context and that the arrangements during the transitional period are managed effectively.

In response to this risk we undertook a review of the Council's approach to undertaking its appraisal of options and the management of the transitional arrangements with a focus on accountability and governance. Our report has been discussed and agreed with officers and has been issued as final.

As part of our ongoing audit we will track the implementation of our recommendations to assess the extent to which improvements and benefits have been realised.

Key milestones and deadlines

The Council is required to prepare the financial statements by the end of June 2011. I am required to complete the audit and issue the opinion and value for money conclusion in September 2011.

33 The key stages in producing and auditing the financial statements are in Table 3.

34 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

35 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
Walk- through testing of financial systems	January 2011
Control and early substantive testing	March 2011
Receipt of accounts	June 2011
Working papers available to the auditor	July 2011
Start of detailed testing	July 2011
Progress meetings	Weekly during July/August
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	September 2011

The audit team

Table 4 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Phil Sharman District Auditor	p-sharman@audit-commission.gov.uk 0844 798 5839	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Alastair Rankine Audit Manager	a-rankine@audit-commission.gov.uk 0844 798 4631	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

36 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

37 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

38 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

39 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

40 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

41 My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
- you will inform us of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements by the agreed date;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Council.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as

being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	DA and AM	Quarterly	General update
Director of Finance	AM and Team Leader (TL)	Quarterly	General update plus: <ul style="list-style-type: none"> ■ March - Audit Plan; and ■ June - accounts progress and annual governance report.
Corporate Management Team (as required)	AM and TL	November/December March/April July/August September/October	Planning and feedback
Deputy Director of Finance	AM and TL	Monthly Weekly at post statement	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> ■ Audit Plan; ■ Annual governance report; and ■ other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Directors

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
 - for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
 - for local probation boards and trusts – the board or audit committee;
- and

- for other local government bodies – the full authority or board or Council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

January 2011

MEMBERS' ATTENDANCE RECORD 2010/11

AUDIT COMMITTEE

MEMBERS	17/06	19/10	25/11	25/01	07/03
Mr Kwatra (Independent Chair)	P	P	P		
Chohan	Ap	P*	P		
Dhillon	P	P	P		
Haines	Ap	P	P		
Small	P	Ap	P		
Walsh	Ap	Ap	Ap		

P = Present for whole meeting
Ap = Apologies given

P* = Present for part of meeting
Ab = Absent, no apologies given

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