

Annual Governance Report

Slough Borough Council

Audit 2009/10

30 September 2010

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Status of our reports

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.
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Members of the Council

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and the Strategic Director of Resources on the 14 September 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- set out the reasons for not amending the error I have identified
- approve the letter of representation before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Phil Sharman CPFA
District Auditor

30 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results
Unqualified audit opinion proposed	Yes
Financial statements free from material error	Yes
Adequate internal control	Yes
Value for money	Result
Adequate arrangements to secure value for money	Yes

Audit opinion

- 1 The financial statements give a true and fair view of the financial position and results of the Council and the Group for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting.
- 2 I therefore propose to issue an unqualified opinion on the financial statements.

Financial statements

- 3 The financial statements presented to audit were complete and contained non-material and presentational and disclosure errors which management have agreed to adjust. The Council has strengthened its accounts review processes in line with my recommendation last year and this has resulted in a reduced number of post-approval adjustments to your financial statements.
- 4 The professional expertise in the finance function was also strengthened during the year and there was less dependence this year on temporary contract staff. I am pleased to report that the revised arrangements worked well. We maintained a dialogue with finance staff in the period leading up to the preparation of accounts and discussed the approach to any potentially problematic items at an early stage.

Key messages

Important weaknesses in internal control

- 5** I have identified some weaknesses in the design or operation of an internal control that might result in a material error in your financial statements. These weaknesses have already been reported to the Audit Committee in my pre-statement accounts memorandum but I also draw them to your attention in completing my audit. I am satisfied that there has been some progress since my earlier report and I recognise the Council's commitment to address the underlying issues as part of its finance re-structure.

Value for money

- 6** The Council's arrangements to manage its finances and resources and govern its business are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 7** I therefore propose to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Audit completion

- 8** I do not propose to exercise any of my formal audit powers. I therefore propose to certify completion of the audit upon closure of the next steps set out in this report.

Audit fees

- 9** The audit work summarised in this report was carried out within the fee estimate of £324,100 as notified in my letter to the Chief Executive dated the 21 April 2009. No additional fee is proposed.

Independence

- 10** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

11 My audit is complete and I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

12 My audit did not identify any material errors in the draft accounts presented for audit.

13 I did identify a number of non-material errors including presentational and disclosure errors and inconsistencies between the figures in the accounts and those included in the Annual Report which officers have agreed to adjust.

Adjusted errors

14 The adjusted non-material errors that I would like to bring to your attention relate to:

- The write-back of an overstatement of garage income and the clearance of a suspense account balance. The combined impact of these adjustments is to reduce the surplus on the Housing Revenue Account for the year from £2.6 million to £1.9 million and to increase the deficit on the Income and Expenditure from £38.6 million to £39.3 million;
- An increase in the pension fund interest cost chargeable to the Income and Expenditure Account. The impact of this adjustment is to increase the deficit on the income and expenditure account from £39.3 million, as restated above to £40.3 million. These interest costs have been reversed out in the Statement of Movements in General Fund Balance so there is no change in the net increase in General Fund balance for the year which remains at £845,000;
- The re-statement of community assets forming part of Fixed Assets in the Balance Sheet to historic cost as required under the Council's accounting policy on the measurement of fixed assets (Note 10). The effect of this adjustment is to decrease the value of community assets from £6.3m to £2.7m and to decrease the balance on the Revaluation Reserve by an equivalent amount.

15 Appendix 2 lists other non-material audit adjustments made since production of the draft financial statements in June 2010. Corrections of all presentational and disclosure errors are not listed in this report but details have been provided separately to officers as a check on the adjustments made. The adjustments referred to in

Financial statements

Appendix 2 also affect the Council's Group accounts but to avoid repetition their impact on the Group accounts have not been separately listed.

Unadjusted error

- 16** The unadjusted error that I am required to bring to your attention relates to a late adjustment to the 2009/10 accounts of Slough People First which form part of the Group Accounts appearing in the Council's financial statements which management have declined to adjust. This consists of a provision amounting to £135,000 and if it were to be reflected in the Council's accounts would impact on the reported position of the Group and would reduce the surplus on the Housing Revenue account by £135,000.
- 17** The error is deemed not material I am only required to draw it to the attention of those charged with governance. It will not impact on my audit opinion on the financial statements.

Conclusion

- 18** I am pleased to report that the Council has strengthened its accounts review processes in line with my recommendation last year and this has resulted in improvement, including a reduction in the number of post-approval adjustments to your financial statements compared to the previous year.

Important weaknesses in internal control

- 19** I have identified some weaknesses in the design or operation of an internal control that might result in a material error in your financial statements. These weaknesses have already been reported to you in my pre-statement accounts memorandum but as they may also be symptomatic of broader weaknesses in your control environment they are repeated here for completeness. My findings are set out below in Table 1.

Table 1 Weaknesses in internal control

Accounts entry/Source	Issue	Potential impact
Income collected for charges and services	There are no clear controls ensuring that debtor accounts are only raised where income is actually due to the Council.	Income that is not actually due to the Council could be included in your financial statements. I extended my testing on journals and debtors to provide me with sufficient assurance over this matter.
Entries in your accounts generated by feeder systems	A number of reconciliations were found to be incomplete, missing, or not completed in a timely manner. These included accounts receivable, council tax, bank and accounts payable.	Limited as final year reconciliations were undertaken. In-year financial monitoring could be compromised however if financial

Accounts entry/Source	Issue	Potential impact
		information is incomplete. To obtain the assurance I needed, I ensured that material year-end reconciliations had been completed.
Housing Rent Account rental income	<p>There was inadequate control over the transfer of rent information to the new Housing Rent system, part way through the year and reconciliations were not carried out on a timely basis.</p> <p>As a consequence we were unable to obtain the required level of assurance that rent details had been correctly transferred to the new system and that the rent debit for the year was correctly stated</p>	<p>Rent arrears recovery suspended for part of the period as individual rent account information was incorrect and in year financial monitoring compromised.</p> <p>Substantial staff resource implications to investigate discrepancies in rent information and carry out detailed reconciliations.</p> <p>I carried out a review of the post implementation procedures and in addition I extended my testing of the rent debit.</p>

Source: Pre-statements audit work conducted in 2009/10

20 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. I am unable to comment on the impact of this action on the overall control environment of the Council as these changes will need time to permeate but there has been progress in some areas and I am re-assured by the Council's commitment to act to address the underlying issues as part of its finance re-structure.

Recommendation

- R1** Maintain the momentum in improving internal control in the significant financial systems to address the areas highlighted from my review including:
- income collection systems;
 - reconciliations with general ledger feeder systems; and
 - HRA rental income systems.

Housing Rent system

21 A new Capita Academy housing rent system was procured by the Council and People First, an independently governed Arms Length Management Organisation (ALMO) responsible for managing the council's housing stock. Phase 1 implementation for the ALMO modules went live in July 2009 but was accompanied by numerous problems with the transfer of data from the previous system. The ALMO appointed NCC Services Limited, a third party to provide project management services and assist them in project implementation and overseeing the process.

22 From my work, I have concluded that:

- project management of the original implementation was weak; there was no business impact assessment and failings in relation to detailed project planning, including the lack of stakeholders inclusion, the absence of key milestones, risk assessments, data migration and testing arrangements, systems process mapping, Council's staff training (where required) and separate internal audit reviews;
- from my discussions it appears that a project board was in place but failed to proactively oversee the implementation and to prevent the project from deviating from its goals;
- data extraction from the previous system and uploading into Academy was done with more than ten data cuts. User acceptance, post implementation functionality and data quality testing arrangements were not formally defined. The approach adopted resulted in erroneous migration leading to delays and the need for several reconciliations;
- adequate incident/problem management, systems maintenance and change control arrangements were not put in place during the transition;
- I was unable to confirm that amendments to critical data including tenancy details and rents were authorised and undertaken within a controlled environment or that adequate systems security and access control arrangements were maintained throughout the transition;
- system security features, audit logging etc was not formally tested although I was informed that user access profiles and appropriate user access privileges have been setup in the system;
- no formal documentation is available that reflects an assessment of the new system on the processes following implementation and mapping of system processes to the key controls and procedures implemented; and
- as such no statement of expected benefits for the first phase of implementation has been developed which would help later in the post implementation review.

- 23** My understanding is that the Academy system is now stabilised and I have been assured that reconciliations have addressed and rectified all inaccuracies in the data transferred to the new system. The ALMO ceased operations on 1st July 2010 and the housing service returned to the direct management of the Council. However, there is still no direct (fully automated) interface between Academy and the financial system (Oracle) and the introduction of the remaining phases of the planned implementation, intended to improve the functionality of the system have been delayed. In addition a recent internal audit review of the Academy system has identified weaknesses in existing controls and has made recommendations for improvement.
- 24** Similar IT projects for direct or 3rd party systems that impact on the Council’s system of internal control need to be better managed in the future. Members should seek assurances from officers that the weaknesses identified by my review and the work of Internal Audit have been addressed and plans are in place to ensure the housing rent system operates effectively.
- 25** I review your annual Governance Statement to ensure it complies with proper practice and is not inconsistent with my understanding of the Council. There was no mention of the control issues encountered as a result of the ALMO issues highlighted, within the Statement included within the draft Accounts. My recommendations to correct this have been actioned by officers and are now included.

Recommendation

R2 Ensure significant system transfers and upgrades are planned and managed to secure internal control through the implementation lifecycle

Key areas of judgement and audit risk

- 26** In planning my audit of the financial statements I originally identified specific risks and areas of judgement set out in table 2. I have considered and updated upon these as part of my opinion audit.

Table 2 Key areas of judgement and audit risk - opinion

Risk area	Audit response
<p>Revenue outturn</p> <p>The Council must deliver a challenging programme of savings to achieve a balanced financial position. The narrow margins involved are sensitive to small movements in income and expenditure at the year end and I have designed audit tests to confirm that income and expenditure is recognised in the right accounting period.</p>	<p>I am satisfied from my audit testing that there has been no material misposting of income and expenditure between accounting periods.</p>

Financial statements

Risk area	Audit response
<p>Controls assurance</p> <p>I was unable to obtain full assurance from systems work and will need to modify our approach accordingly to gain assurance in the most efficient way.</p>	<p>I confirm that I have applied the audit approach proposed in my Pre-statement audit memorandum reported to the Audit Committee in June 2010 and that this has provided me with the additional assurance required in support of my audit.</p>
<p>Valuation of assets</p> <p>There may be consequences for the Council's valuation programme or the certification of asset values at the year end due to the departure of the Council's Valuer.</p>	<p>I met with the Council's interim Valuer prior to the commencement of my audit and discussed and agreed audit requirements. I confirm that I have received all the information required in support of the Council's valuation of its fixed assets.</p>
<p>Rent accounting</p> <p>Risk of errors in reported rent figures and misstatement of rent arrears figures caused by problems with the change over of rent system.</p>	<p>I have applied audit tests as appropriate and I confirm that the rent debit for the year and the rent arrears balance is not materially misstated.</p>
<p>Application of the 2009 SORP</p> <p>PFI - may bring significant PFI funded school assets onto the Council's balance sheet. The accounting and record keeping required to achieve this will not be straightforward.</p> <p>Collection fund - billing authorities will account for NNDR and Council Tax receipts and related debtor and creditor balances as agent rather than principal.</p>	<p>I confirmed that you complied with the updated collection fund accounting requirements and have accounted correctly for your PFI assets on balance sheet as required under the SORP.</p>
<p>Closedown arrangements</p> <p>Capacity of the finance department is stretched and there is heavy reliance on contractor input to final accounts production.</p>	<p>I maintained a close liaison with key finance staff during the closedown process and I am satisfied the necessary steps were taken to ensure that capacity of the finance team was preserved during this busy period. The Council produced its draft accounts in line with its closedown programme.</p>

Accounting practice and financial reporting

- 27** The professional expertise in the finance function was strengthened during the year. There was less dependence this year on temporary contract staff and the Council made a number of new appointments including a new interim post of Head of Corporate Finance. This new post was responsible for audit liaison and for acting as the Council's contact on all audit matters. The process was overseen by the Deputy Director of Finance.

- 28** I am pleased to report that the revised arrangements worked well. We maintained a dialogue with finance staff in the period leading up to the preparation of accounts and discussed the approach to any potentially problematic items. Technical changes arising from the implementation of the 2009 SORP (including the accounting treatment of PFI assets and liabilities) and the valuation of fixed assets were discussed in advance of the audit to ensure that the accounting principles applied by the Council were agreed and entries were properly included in the draft financial statements.
- 29** Liaison arrangements during the audit also worked well. The Council will need to ensure that standards are maintained and that capacity is sufficient to meet the additional demands associated with reporting under International Financial Reporting Standards (IFRS) for the first time in 2010/11.
- 30** There are a number of other issues in relation to accounting practice identified as part of my audit that I would like to bring to your attention.

Fixed asset register

- 31** The reconciliation of the fixed asset register to the general ledger/ financial statements this year has proved difficult and time consuming to complete. This was partly due to a large volume of adjustments made in year but also due to limitations with the software which necessitated a large number of manual adjustments. This delayed the reconciliation of the general ledger to the fixed asset register which was not completed until 6 August 2010 after the commencement of the audit.
- 32** With the introduction of IFRS accounting in 2010/11, the number and complexity of adjustments to the register is likely increase. Problems with the software need to be resolved now to avoid the risk of more significant delays and additional cost when the Council closes its accounts next year.

NNDR arrears

- 33** The bad debt provision set aside for NNDR arrears is £6.2 million, representing approx 50 per cent of total arrears. The breakdown of arrears shows arrears outstanding from 1994-2006 carrying a provision of 100 per cent but which have not been written off. This constitutes 40 per cent of the total provision made.
- 34** It is recommended that the Council review its old outstanding debts with a view to writing these off in the 2010/11 accounts.

Sundry debtor arrears

- 35** Sundry debtor arrears at the 31 March 2010 total £13.3 million. Amounts outstanding for more than a year make up a relatively high proportion (17 per cent) of the value of these outstanding debts and provisions need to be established in the accounts to the extent to these arrears are deemed irrecoverable.
- 36** The Council does provide for bad and doubtful debts (some £8.2 million at the 31 March 2010) but it recognises that there is no clear guidance available to staff on how these provisions should be calculated which has led to inconsistencies within different Council departments and a varying approach to write-offs.

Financial statements

37 It is recommended that the Council review its write-off policy with a view to making this consistent across all Council departments.

Monitoring of Capital Expenditure

38 As part of its annual accounts closedown the Council identified £1.4 million of expenditure that it had wrongly treated as capital expenditure in 2008/09. The Council corrected this error by reversing the entry in the 2009/10 accounts and charging the equivalent amount to the Income and Expenditure Account. Although we are satisfied that the correct adjustment has been made to the 2009/10 accounts we observed that this was not picked up by the routine budget monitoring process.

39 On further enquiry it transpires that capital costs even where they are treated as a revenue expense are treated as "non-controllable" and thus are not monitored as part of the Council's budgetary process which in our view constitutes a weakness in these arrangements.

40 Officers should review existing procedures to ensure that in future the revenue consequences of all costs are monitored as part of the Council's budgetary process on an ongoing basis.

Recommendation

R3 Improve accounting practice and financial management by addressing the areas identified including:

- liaise with the fixed asset register provider to ensure that future adjustments can be processed on a timely basis;
- review the aged NNDR debt for recovery or write-off;
- review write-off policy to improve consistency in dealing with sundry debts; and
- ensure that all costs are monitored as part of the Council's budgetary process.

Letter of representation

41 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 42** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 43** The criteria for all key lines of enquiry (KLOE) specified were met.
- 44** I therefore intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Key areas of judgement and audit risk

- 45** In planning my audit I identified specific VFM risks that I have either considered or updated as part of my audit.

Table 3 **Key areas of audit risk - vfm conclusion**

Issue or risk	Finding
<p>Financial management</p> <p>The Council is facing significant financial pressures over the short and medium term. The Council needs to deliver budget savings to achieve a stable financial position.</p>	<p>The Council responded well to its short term financial pressures and successfully delivered its budget targets for 2009/10. Continuing financial pressures will test the Council's arrangements still further in the coming year.</p>
<p>Shared services</p> <p>The Council is considering entering into an arrangement with two other councils for the provision of shared back office services. This can offer significant economies of scale but service performance, business continuity and contractual risks will need managing.</p>	<p>The Council withdrew from the proposed shared service arrangement in February 2010 after careful consideration of the pros and cons of committing to the venture. In my view this was the correct decision as the arrangement no longer met the requirements of the Council nor promised to deliver the opportunities or benefits originally envisaged.</p> <p>However, there are aspects of the process which were not well managed and abortive costs have been incurred.</p>

Value for money

Issue or risk	Finding
	Lessons have been learned and the Council can now incorporate these into its future plans for securing economies in its support functions.
Workforce management In common with other Berkshire public sector bodies, the Council faces significant challenges in addressing current and future workforce issues, putting in place effective programmes of action to attract, retain, develop and motivate a 'fit for the future' workforce.	A key challenge to the Council during the year was the implementation of job evaluation and harmonisation which it successfully completed on target. However, the Council has been slow to address workforce planning. At the date of our review work was in hand to produce a strategic plan and to develop workforce talent management.

Assessment of arrangements

46 The Council has performed well in delivering planned improvements in managing the use of resources during the 2009/10 year. These are summarised across three themes as follows.

Managing finances

- The Council has extended its financial planning timescale. From 2010/11 financial planning is on a three year time horizon extending to five years from 2011/12.
- The Council is working effectively with partners to improve financial planning.
- The links between financial and service planning have been strengthened.
- Savings targets are now specific and are supported by service managers who have evaluated the implications for service delivery.
- Engagement with the community has improved and residents and local businesses are encouraged to have their say on budget proposals.
- Benchmarking information has been used to good effect and has contributed to improved outcomes in key services.
- The Council has made good progress towards identifying specific efficiency savings to be delivered in each of the next three years.
- The Council has also introduced a balanced score card. Additional data is added such as sickness levels and value for money assessments to provide a comprehensive assessment of overall performance. Increasingly this information is used to identify good and poor performance and target action accordingly.
- The Council has produced an annual report in conjunction with the production and publication of the accounts.

Governance arrangements

- The Council has looked at different options for securing services and can demonstrate changes in the way it purchases services that have led to reduced costs and greater efficiency, for example the Council has entered into a 15-year contract with a private sector company for an 'energy from waste facility'.
- The Council has implemented new ways of delivering services, for example the redesign of library provision whereby the service will be delivered through a new strategic partnership with another provider.
- Members and officers receive fit-for-purpose information to support their decision making.
- The Council is clear about its executive, non-executive and scrutiny functions and the respective roles and responsibilities of each and the constitution, last updated in May 2009, covers all key aspects of the Council's business.
- There are productive working relationships between Members and officers and these are underpinned by an officer/ member code of conduct. The employee code has been updated with a greater focus on gifts, hospitality and also covers anti-fraud and corruption arrangements. Working relationships have improved in recent years.

Managing resources

- The Council has an organisation-wide approach to managing assets as a corporate resource.
- The Council is actively using its assets to invest in its priority area of regeneration. The Heart of Slough project master plan has been produced to deliver significant infrastructure improvement and potential economic benefits to the area and work on this project is proceeding to plan.
- The Council has identified gaps in skills and is taking action to address these. It has introduced career grade competencies; has supported an apprenticeship scheme to enable more young people into employment; staff costs have been benchmarked and there are effective systems for managing levels of staff sickness and accidents.
- Senior management is supportive of organisational change and training programmes are in place to help line managers to deal with change management issues. A management development programme is being developed to take a more holistic approach to the development of managers.
- Council has invested substantial effort in implementing its Job Evaluation and Harmonisation programme and successfully completed this process with new contracts in place for the majority of staff by April 2010.

Opportunities for improvement

47 My review has identified opportunities for improvement and my detailed recommendations are set out in a separate report to officers. I suggest the Council focus improvements in its arrangements to secure value for money in the use of resources in the following areas.

- Develop a more systematic approach to benchmarking and the use of unit cost information in identifying cost savings that can be applied Council-wide.
- Achieve further economies in procurement through the greater use of procurement performance indicators to monitor progress and assess outcomes and ensuring that 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 within the Council with clear and tangible outcomes.
- 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.
- 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

R4 The Council should consider those areas for improvement identified by my use of resources review and develop plans to address the priority improvement areas.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

- 48** This report sets out the key issues that you should consider before I complete the audit. I therefore ask the Council to:
- consider the matters raised in the report before approving the financial statements;
 - take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - set out the reasons for not amending the error I have identified
 - approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3);
 - agree your response to the proposed action plan (Appendix 5).
- 49** I will be pleased to present the report and discuss any matters arising at your Council meeting on 30 September 2010.

Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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.
-

Qualified

The auditor has some reservations or concerns.

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 resources.

Appendix 1 – Independent auditor’s report

Independent auditor’s report to Members of Slough Borough Council

Opinion on the accounting statements

I have audited the Authority and Group accounting statements and related notes of Slough Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Slough Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Strategic Director of Resources (Responsible Financial Officer) and auditor

The Responsible Financial Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

Appendix 1 – Independent auditor’s report

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- the Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority’s responsibilities

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

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Slough Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Sharman CIPFA

District Auditor

Audit Commission

1st Floor, CEC Business Centre, Crossweys, 28-30 High Street, Guildford GU1 3HY

30 September 2010

Appendix 2 – Amendments to the draft accounts

The following misstatements were made during my audit and the accountancy team have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4 Errors agreed and adjusted

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Housing Revenue account					
Garage rents	Adjustment to correct double posting of VAT element of garage rents	381			381
HRA Suspense account	Write off of balances on HRA suspense account carried forward in error	300			300
General Fund					
Pensions interest cost and expected return on pension assets	Increase in pensions interest cost and expected return on pensions assets arising from inclusion of the Council's share of the Berkshire County Council Pensions Scheme liabilities	1103	1103	1103	1103
Collection Fund Debtor	Increase in Collection Fund Debtor. Collection fund bad debt provision incorrectly netted off against Collection Fund Debtor rather than being disclosed separately			3,863	3,863

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Re-statement of community assets to historic cost	<p>Decrease in carrying value of community assets and decrease in revaluation surplus</p> <p>Community assets were re-valued during the year which is contrary to the requirements of the SORP 2009 and the Council's accounting policy</p>			3,611	3,611
Cashflow statement					
Various adjustments	<p>Deficit for year (£38.6m) changed to (£39.7m)</p> <p>Pension fund adjustment (£5.2m) changed to £6.3m</p> <p>Other non-cash Financial instrument adjustments (£116k) changed to (£470k)</p> <p>Fixed asset additions (£34m) changed to (£44m)</p> <p>Similar adjustments to the GROUP cashflow statement</p>	No impact		No impact	
Notes to accounts					
Note 40: Financial instruments	Incorrect inclusion of statutory debts in financial instrument note	No impact		No impact	
Note 15: Operational assets	Inconsistencies between brought forward balances and 2008/09 audited accounts and understatement of assets under construction.	No impact		No impact	
Note 30 Pension scheme liability	Non adjusting post balance sheet event to reflect the impact of the change from RPI to CPI in calculating future pension liabilities.	No impact		No impact	

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
	Estimated reduction in pension liability £8.25m				
Note 2 PFI disclosures	Various changes to the disclosure notes				
Note 9 Pooled budget	Minor changes to the split of figures	No impact		No impact	
Note 12 Officers remuneration statement	Separate disclosure of officer's expenses	No impact		No impact	
Explanatory forward	Various changes	No impact		No impact	

Appendix 3 – Draft letter of representation

Slough Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of Members, officers and officials of Slough Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements, in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatement

I confirm that I believe that the effects of the uncorrected financial statements misstatement referred to in the Annual Governance report is not material to the financial statements. This misstatement has been discussed with those charged with governance within the Council and the reason for not correcting this item is as follows;

The value of the recommended adjustment does not impact to any material degree on the statements which in my view continue to represent a fair reflection of the Council's financial position as at 31st March 2010.

Supporting records

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 Council and Committee meetings, have been made available to you.

Appendix 3 – Draft letter of representation

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or,
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Valuation

I confirm the reasonableness of the significant valuation assumptions within the financial statements, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and,
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular, other than those already disclosed in the financial statements;

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council a change has been announced regarding the future indexing of pension increases, the effect of which has been disclosed in Note 30 as a non-adjusting post balance sheet event. No additional significant events have occurred which would require additional adjustment or disclosure in the financial statements. The Council has no plans that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

At the date of this representation, the Council has made no decision regarding the future use of the Town Hall annex. Accordingly the carrying value of the Town Hall annex in the financial statements is fairly stated.

Signed on behalf of Slough Borough Council:

Name: Julie Evans

Position: Strategic Director of Resources

Date: 30 September 2010

Appendix 4 – Value for money criteria

Theme 1 - managing finances

<p>KLOE 1.1 financial planning Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</p>	<p>criteria met</p>
<p>KLOE 1.2 understanding costs and achieving efficiencies Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</p>	<p>criteria met</p>
<p>KLOE 1.3 financial reporting Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</p>	<p>criteria met</p>

Theme 2 - governing the business

<p>KLOE 2.1 commissioning and procurement Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?</p>	<p>criteria met</p>
<p>KLOE 2.2 data quality and use of information Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</p>	<p>criteria met</p>
<p>KLOE 2.3 good governance Does the organisation promote and demonstrate the principles and values of good governance?</p>	<p>criteria met</p>
<p>KLOE 2.4 risk management and internal control Does the organisation manage its risks and maintain a sound system of internal control?</p>	<p>criteria met</p>

Theme 3 - managing resources

<p>KLOE 3.1 use of natural resources Is the organisation making effective use of natural resources?</p>	<p>not assessed in 2009/10 year</p>
<p>KLOE 3.2 strategic asset management Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?</p>	<p>criterion met</p>
<p>KLOE 3.3 workforce planning - not applicable in 2008/09 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?</p>	<p>criterion met</p>

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10						
8	R1 Maintain the momentum in improving internal control in the significant financial systems to address the areas highlighted from my review including: <ul style="list-style-type: none"> income collection systems; reconciliations with general ledger feeder systems; and HRA rental income systems. 	3	Director of Strategic Resources and Interim Head of Central Finance	Agreed	Interim Head of Central Finance will review all general ledger reconciliations on a monthly basis. Income collection systems are a key work stream within the Corporate Income and Debt Management project which will conclude in December 2010. HRA rental income systems will be managed by Central Finance. All reconciliations will be performed monthly and reviewed on a timely basis.	30 September 2010
9	R2 Ensure significant system transfers and upgrades are planned and managed to secure internal control through the implementation lifecycle.	3	Director of Strategic Resources and Deputy Director of Finance	Agreed	All future significant system transfers and upgrades direct or third Party, will be under the direction of the Director of Strategic Resources, benefit from appropriate project management and progress will be monitored by the relevant Senior Management Team.	In place

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	<p>R3 Improve accounting practice and financial management by addressing the areas identified including:</p> <ul style="list-style-type: none"> • liaise with the fixed asset register provider to ensure that future adjustments can be processed on a timely basis; • review the aged NNDR debt for recovery or write-off; • review write-off policy to improve consistency in dealing with sundry debts; and • ensure that all costs are monitored as part of the Council's budgetary process. 	2	Deputy Director of Finance and Interim Head of Central Finance	Agreed	<p>We have liaised with fixed asset provider so that IFRS adjustments will be processed in October on timely basis.</p> <p>Aged NNDR debt will be reviewed as part of the Corporate Income and Debt Management project.</p> <p>Write off policies will be reviewed as part of the Corporate Income and Debt Management Policy.</p> <p>Non controllable costs will be monitored as the controllable cash limit is to highlight any variance at that time and corrective action taken as appropriate.</p>	30 September 2010
16	R4 The Council should consider those areas for improvement identified by our value for money review and develop plans to address the priority improvement areas.	2	Director of Strategic Resources and Deputy Director of Finance	Agreed	Areas for improvement identified by the value for money review will be considered as an integral element of our ongoing commitment to continue to improve Value for Money.	30 September 2010

The Audit Commission

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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