

Supplementary

Audit Plan

Slough Borough Council

Audit 2010/11

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Introduction

1 I issued my Annual Audit Plan for 2010/11 in January 2011 which was presented to the January 2011 meeting of the Council's Audit Committee. Since this plan was presented my team has completed the pre statement audit work as described in the original plan and on the basis of this work I have updated my testing strategy.

2 I have also carried out work in support of my VFM conclusion to review aspects of the Council's arrangements for securing financial resilience and securing value for money in its use of resources.

3 This supplementary Audit Plan summarises for the attention of those charged with governance:

- the key issues arising from my pre-statement work and how these impact on the testing strategy for my financial statements audit set out in the original plan; and
- an update on my VFM conclusion work plan.

Auditor's report on the financial statements

Testing strategy

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

5 In order to do this I need to obtain evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

6 My testing strategy is designed to provide that assurance. On the basis of risks identified as part of my audit planning I produced a testing strategy which consisted of testing key controls and substantive tests of transaction streams and material account balances at year end. The testing strategy has regard to the requirements of the new clarified International Standards of Auditing (ISAs) effective for the first time in 2010/11.

7 In this supplementary Audit Plan I provide an update on the key elements of the testing strategy and the impact of my audit work to date:

- Reliance on systems controls
- Reliance on management controls and Internal Audit
- Other specific risks
- IT risk assessment
- International Auditing Standards - impact of new clarified framework
- IFRS re-statement.

Reliance on system's controls

8 In the January 2011 Audit Plan I explained that a key requirement for the Council was to address weaknesses in internal control that I reported in my 2009/10 Annual Governance Report. Improvement in this area would 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.

9 My testing of the Council's systems is complete and my findings are summarised in Table 1.

Table 1: **Controls testing**

System	Reliance on controls	Impact on testing strategy
NNDR	Partial assurance	<p>There are no controls in place within the NNDR system to check the completeness and accuracy of changes made to the Academy System after the billing run takes place.</p> <p>The Council carries out a year-end reconciliation and we will review this as part of our post statement procedures.</p>
General ledger	Partial assurance	<p>There is a lack of authorisation/review/segregation of duties over journal input which creates a risk of material misstatement in the financial statements.</p> <p>We have carried out substantive testing of in-year journals (see para 20) and will test year-end journals as part of post statement procedures.</p>
Accounts receivable	Partial assurance	<p>There is no control within the accounts receivable system to check that the invoice value of accounts receivable raised by the system equals the amount to be billed as per the notification of debt form, raised by the initiating department.</p> <p>In order to gain assurances we substantively tested a sample of notifications to invoices raised. Our testing was satisfactory.</p> <p>Post statement procedures are planned to gain assurances on valuation; existence and rights and obligations.</p>
Fixed assets	Partial assurance	<p>Post statement procedures planned to obtain assurances on valuation; existence and rights and obligations.</p>
Housing rents	Partial assurance	<p>My team will agree substantively year end housing rents giro reconciliation to General Ledger as this was not done for Jan and Feb when audit testing was carried out.</p>
Accounts payable	Partial assurance	<p>Cut off will be tested as part of post statement procedures at year-end.</p>
Payroll	Full assurance	<p>No change</p>
Cash	Full assurance	<p>No change</p>
Treasury management	Full assurance	<p>No change</p>
Housing Benefits	Full assurance	<p>No change</p>

System	Reliance on controls	Impact on testing strategy
Social Services	Full assurance	No change
Education	Full assurance	No change
Council tax	Full assurance	No change

Source: Audit testing

10 The Council has improved the operation of internal controls in some areas but full controls assurance across all systems has not been secured. Further improvements need to be made before I am able to place full reliance on the Council's control environment and reduce the amount of substantive audit work I need to undertake.

11 I have provided detailed feedback to your officers. I am assured that management remain committed to securing continuous improvement in the design and operation of internal financial controls in the Council.

Reliance on management controls and internal audit

12 In order to comply with International Standards on Auditing I am required to obtain an understanding of the following:

- how those charged with governance have oversight of management's processes in relation to the risk of material misstatement in the financial statements due to fraud;
- how those charged with governance oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control;
- whether management has knowledge of any actual, suspected or alleged frauds;
- how those charged with governance gain assurance that all relevant laws and regulations have been complied with and whether you are aware of any potential litigation or claims that would affect the financial statements.

13 I have made enquiries of your Strategic Director of Resources on the above matters for the purposes of my audit given the changes in governance arrangements that have taken place over the past year.

14 I have also sought assurances from management on the following issues as required under the new clarified ISA framework;

- internal controls and the management of risk;
- identification and disclosure of related party transactions;
- use of experts;
- basis of accounting estimates.

15 I am currently awaiting a response to the above from your officers.

16 I am pleased to report that I have been able to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I have been able to use the results of Internal Audit's testing of key financial systems as previously agreed and to rely on supplementary audit testing by Internal Audit where risks and weaknesses were identified during the course of routine work.

Other specific risks

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

Table 2: **Specific risks**

Specific risk	Audit response
<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>My team has met with the Council's Valuer and finance staff to discuss the arrangements for the valuation of assets; the impact of changes introduced under IFRS and the year end certification arrangements proposed to support the entries in the accounts.</p> <p>I am satisfied that appropriate arrangements are in place for the valuation of Council assets. Valuation reports have now been received, except for the Town Hall but late receipt of valuations has meant that other procedures have been delayed.</p> <p>Once again the Council has experienced problems in processing entries to the fixed asset register which has necessitated manual adjustments with associated risk of error. As a consequence I need to carry out additional post statement procedures to ensure that material errors have not gone undetected.</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. Provisions must be retained at a level sufficient to cover a prudent assessment of bad and doubtful debt</p>	<p>I will review the Council's updated policy for the provision and write off of bad and doubtful debts (when available) and I will review the level of year-end provisions.</p>

Specific risk	Audit response
<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>I am maintaining an on-going dialogue with officers.</p> <p>I have agreed with officers a revised joint working protocol to ensure that the post statement audit is undertaken in an efficient and effective manner.</p>
<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 when seeking to raise revenues.</p>	<p>There are no issues that officers have brought to my attention or on which they have sought my view.</p> <p>I will seek further representations from management as part of post statement procedures.</p>
<p><i>Source: Audit risk assessment</i></p>	

IT risk assessment

18 My risk assessment of the Council's IT arrangements is complete and my findings are as follows:

19 I found access controls to be sound with procedures in place to deal with starters and leavers. Change control is not yet formalised but the informal processes have the components which should ensure adequate control.

20 I have recommended to officers that password standards for Oracle are weak and should be brought in line with corporate standards.

Internal Audit Standards - impact of new clarified framework

Journals

21 I have carried out substantive testing of in-year journal entries. My sample of journals for testing was selected using computer aided audit techniques (CAAT). This enabled me to set specific parameters so as to focus on high value or unusual transactions, for example journals processed out of normal work hours or without a narrative.

22 I am still awaiting some supporting documentation from officers. However, subject to the satisfactory resolution of these outstanding matters, the results of my testing appear reasonable.

Related party transactions

23 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

24 Internal Audit has carried out a review the arrangements that the Council has in place to identify, account for, and disclose, related party transactions and relationships identifying related party transactions. Their findings are being discussed with management and the final report will be available shortly.

25 I propose to rely on this work for the purposes of my audit, and will design post statement procedures to provide me with assurance as appropriate.

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. I have requested a list of these and I am awaiting responses from officers.

Reporting 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.

IFRS re-statement

29 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. Earlier in the year we assessed the Council's progress to date as reasonable but this progress has not been maintained. In the later stages of the process the Council has encountered unexpected problems.

30 As a consequence, work to complete the restatement of the prior year accounts has extended over a longer period than anticipated which impacted adversely on my audit. During the period, I have provided accounting guidance on the more complex elements of the restatement exercise and, where available, I have audited the restated accounting entries that have been presented to me. However I have not been able to confirm that the restated accounts are correct in their entirety.

31 My team is due to recommence our audit of the restated IFRS accounts on the 20 June 2011 when officers have assured me that final version of the restated accounts will be available.

Value for money conclusion

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

33 In addition to the two criteria referred to above I am also required to consider in my assessment whether you have maintained proper arrangements in relation to governance and accountability as set out in the Code of Audit Practice.

34 The only change to the work plan described in my January 2011 Audit Plan relates to my decision, taken in the light of discussions with officers to defer the planned follow-up review of the Council's housing service. I have concluded that to conduct this work in 2010/11 would be premature as arrangements remain in transition. However I have sufficient assurances from my initial review and subsequent discussions with officers that the Council's arrangements for the integration and development of its housing function are adequate.

35 The current position on my other planned risk based VFM work is summarised in Table 3 below.

Table 3: **Specific risks**

Planned work	Position update
<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> <p>We will carry out a local risk based review of the Council's management of its cost improvement and efficiency programme</p>	<p>Work in progress</p>

Planned work	Position update
<p>We will carry out a review of the Council's arrangements for the management of capital projects.</p> <p>We also view this as an opinion risk as we will need to be satisfied that expenditure is accounted for correctly.</p>	<p>Complete - a report will be issued shortly</p>
<p>We will review the Council's arrangements for the planned out-sourcing of its transactional services to obtain assurances that the lessons learned from the previous shared service venture have been incorporated into current plans.</p>	<p>Work in progress</p>
<p>We are following up the Council's responses to matters raised in our 2009/10 annual governance report as regards the establishment of proper arrangements focusing specifically on:</p> <ul style="list-style-type: none"> ■ Risk management ■ Procurement ■ Delegated arrangements ■ Audit and scrutiny functions 	<p>Work in progress</p>
<p><i>Source: VFM audit plan</i></p>	

Next steps

36 The Council is required to prepare the financial statements by the end of June 2011. Although these no longer need to be formally adopted by the Council until after the audit is complete (by the 30 September 2011), they do need to be signed by the responsible financial officer on or before the end of June. I am required to complete the audit and issue the opinion and value for money conclusion in September 2011.

37 I have agreed with officers a schedule of working papers required to support the entries in the financial statements. 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.

38 The key stages in producing and auditing the financial statements are in Table 4.

Table 4: **Agreed timetable**

Activity	Date
Receipt of accounts	30 June 2011
Working papers available to the auditor	11 July 2011
Detailed testing	11 July 2011 to 12 August 2011
Progress meetings	Weekly 5 July through to the 9 August with additional meetings to be arranged as required
Draft report for discussion with officers (Chief Executive and Strategic Director of Resources)	20 September 2011
Present report to those charged with governance at the Council	29 September 2011
Issue opinion and value for money conclusion	30 September 2011

39 I have agreed this supplementary plan with the Strategic Director of Resources. I will be pleased to present the plan to the June meeting of the Audit Committee.

Phil Sharman
District Auditor

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