

# **Annual governance report**

**Slough Borough Council**

**Audit 2010/11**

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**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Key messages .....</b>	<b>5</b>
Audit opinion .....	5
Financial statements .....	5
Value for money .....	6
Audit fees .....	7
Independence .....	7
<b>Financial Statements .....</b>	<b>8</b>
Opinion on the financial statements .....	8
Production and publication of the draft financial statements .....	8
Key areas of judgement and audit risk .....	9
Errors in the financial statements .....	11
Important weaknesses in internal control .....	12
Quality of your financial statements .....	13
Significant difficulties encountered during the audit .....	14
<b>Value for money .....</b>	<b>17</b>
Report by exception .....	20
Other matters .....	22
<b>Public rights of challenge .....</b>	<b>25</b>
<b>Next steps .....</b>	<b>26</b>
<b>Appendix 1 Independent auditors report .....</b>	<b>27</b>
Opinion on the Authority and Group accounting statements .....	27
Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources .....	28
Delay in certification of completion of the audit .....	30
<b>Appendix 2 Amendments to the draft financial statements .....</b>	<b>31</b>

**Appendix 3 Unadjusted misstatements in the financial statements .....41**

**Appendix 4 Draft letter of representation .....42**

**Appendix 5 Glossary .....44**

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially 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.**

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	8 -16
Important weaknesses in internal control	Yes	12-13

Table 2: **Key messages - value for money**

Value for money		
Unqualified value for money conclusion	Yes	17-20
Matters to report by exception	Yes	20 - 22

## Audit opinion

**1** At the date of this report my audit is substantially complete. Subject to closing audit procedures and approval of the accounts by members at the meeting of full Council on 19 October 2011, I propose to issue an audit report including an unqualified opinion on the financial statements.

## Financial statements

**2** In 2010/11 local government financial statements were required to be produced, for the first time, under International Financial Reporting Standards (IFRS). Re-stating the accounts to comply with the requirements of IFRS was a complex task, which has caused significant difficulties for a number of local government bodies.

**3** Your finance team experienced substantial slippage during the year in restating previous year's accounts in preparation for the production of IFRS

compliant financial statements. This slippage placed additional pressure on the year end closedown process, and in particular on your final quality assurance procedures.

**4** You did not comply with the requirements of the Accounts and Audit Regulations 2011 to produce properly prepared accounts by the 30 June 2011. By agreement with me your draft financial statements were withdrawn and reissued for audit on 17 August 2011.

**5** My audit to date has identified six errors mainly impacting on note disclosures which were material in value and these notes have been adjusted by management in the final version of the financial statements. There were also a number of non material adjustments which have been made by management including textual changes to disclosure notes and further information to comply with recommended practice.

**6** There were two adjustments that management declined to make in the final version of the financial statements. If these are to remain unadjusted, I am satisfied they would not have a material impact on the financial statements. Nevertheless, I will require your confirmation on these errors in the letter of representation.

## Value for money

**7** When measured against the Audit Commission's specified criteria, I am satisfied that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

**8** The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to maintaining proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Two such matters are your arrangements for :

- commissioning and buying quality services and supplies; and
- producing reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people

**9** Given the importance of these arrangements in securing value for money and ensuring appropriate standards of stewardship and accountability I have made two recommendations under Section 11 of the Audit Commission Act 1998 requiring a response within 30 days.

### Section 11 Recommendations

**R1** Overhaul your procurement arrangements to ensure that these reflect best procurement practice; ensure that your operational procedures are consistent with standing orders and financial regulations and ensure that revised procurement practice is complied with and operates effectively across the Council.

## Section 11 Recommendations

**R2** Ensure that the Council's finance function has the capacity, capability and necessary resilience to operate effectively with established quality assurance arrangements to meet the Council's statutory reporting obligations in the future.

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**10** Two other matters have come to my attention, which are also relevant to my consideration of proper arrangements but I have decided not to report by exception as they are of more limited consequence and mitigating action has been taken by management. These other matters concern:

- corporate risk management; and
- partnership governance.

### Audit fees

**11** The final audit fee is likely to be higher than the estimate included in my opinion plan issued to the Audit Committee in March 2011 (£343,500). Significant additional audit work was associated with your IFRS restatement and late submission of your financial statements for audit.

**12** I have also considered a range of matters under public rights of challenge where additional fees will fall due. I will advise you of my final audit fee within the Annual Audit Letter.

### Independence

**13** I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

**14** The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

# 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**

**15** At the date of this report my audit is substantially complete. Subject to closing audit procedures and approval of the accounts by members at the meeting of full Council on 19 October 2011, I propose to issue an audit report including an unqualified opinion on the financial statements.

## **Production and publication of the draft financial statements**

**16** The Council did not produce and publish properly prepared accounts by the 30 June 2011 as required by the Accounts and Audit Regulations 2011. Regulation 8 (2) requires the Responsible Finance Officer to certify the Statement of Accounts as presenting a “true and fair view” by 30 June. The Council is therefore in breach of Regulation 8 (2).

**17** The draft financial statements prepared for the 30 June 2011 did not constitute properly prepared accounts as required by the Regulations. At the request of the Strategic Director of Resources I agreed that these statements should be withdrawn. They were replaced with a revised set of statements, formally reissued by the Strategic Director of Resources on the 17 August 2011.

**18** As a result of the late receipt of your accounts and the impact of this on my audit, the statutory audit reporting date of 30 September 2011 was not achieved.



## Key areas of judgement and audit risk

**19** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3: **Key areas of judgement and audit risk**

Key audit risk	Findings
<b>First time adoption of International Financial Reporting Standards (IFRS)</b> The introduction of International Financial Reporting Standards for the first time in 2010/11 will increase the risk of errors or misstatement in the financial statements	<p>You experienced significant slippage in your plans to manage the transition to IFRS. This caused acute pressure on your finance team when closing the accounts.</p> <p>My audit identified more issues than in previous years (a picture consistent with other authorities) due to the problems associated with the first time adoption of IFRS.</p> <p>Amendments to the accounts have been made in respect of these issues.</p>
<b>Valuation of Property, Plant and Equipment</b> In my 2009/10 Annual Governance Report I raised concerns about the quality of evidence provided to support asset valuations and the reasonableness of some of the assumptions on which valuations were based. IFRS introduces changes in the accounting treatment and valuation of assets. Taken together these factors increase the risk of error and misstatement of asset valuations appearing in the financial statements.	<p>This year you engaged an external professional firm, to undertake the valuation of your property.</p> <p>Your instructions were clear and comprehensive and the resulting valuation report contained sufficient detail about the methodology of the valuation and the assumptions to support the restated asset values.</p> <p>I was unable to place reliance on some of your capital accounting controls to confirm movements in asset values due to inadequacies in your procedures for updating your asset register. I therefore adopted substantive procedures to agree adjustments to your fixed asset register.</p>

### **Arrears and write-offs of bad debts**

Last year I brought to your attention concerns over the consistency and timeliness of your procedures for writing off irrecoverable debt.

Management undertook to review these procedures and the basis on which provisions are calculated.

Any changes in approach must ensure that patently irrecoverable debts are written off and provisions are retained at a level sufficient to cover a prudent assessment of bad and doubtful debt

The planned review was completed with new procedures to be applied in 2011/12. Therefore procedures for the write-off of debt in 2010/11 remain consistent with previous years.

During the year you have written off of a large number of NNDR debts against existing provisions but the level of general debtors is high overall, in particular sundry debtors where the value of old outstanding debt of more than a year has increased from 17% to 24%.

Overall I am satisfied that in total your provisions for bad and doubtful debts have been retained at a prudent level.

### **Re-structure of the Finance Team and HRA accounting arrangements**

Maintaining the resilience of the finance team constitutes a risk.

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. Changes in personnel and loss of expertise for the HRA may compound this problem.

Council has approved a restructure of the finance function to establish a professional and resilient team but risks may present during the transitional period.

The HRA risk did not materialise but problems were experienced in other areas of the finance function during a year of transition, and in particular affecting your core capacity and technical capability. This impacted adversely on your closedown of accounts and on my audit.

Measures by management included bringing in appropriate interim accounting expertise to support work on the revision of the accounts and to respond to queries raised by my audit team.

In turn my audit team worked flexibly with your finance staff and I adjusted my audit programme and timing of substantive audit work to align with your revised timetable.

### **Optimising revenue resources**

The Council needs to ensure that it acts 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.

I have relied on management assurances that all expenses and revenues included in the accounts are in accordance with statutory authority.

## Errors in the financial statements

### Adjusted errors

**20** Six material errors were identified in the financial statements provided for audit (Appendix 2 table 6). These errors mainly affect the notes to the accounts and have no impact on the reported financial position:

- a typographical error in the value of the revaluation reserve disclosed in Note 21 from £27m to £44m
- a change to the value of capital grants disclosed in Note 33 from £24m to £33m
- adjustment to the value of capital commitments relating to the Heart of Slough project in Note 11 from £27.1m to £19.5m
- adjustment to the value of lease disclosures in Note 36 (various)
- classification errors in the subjective analysis shown in Note 48
- material adjustments to entries in the Cashflow Statement (Appendix 2 table 5).

**21** In addition the Group accounts included in the draft accounts did not include all the required financial statements and omitted the Cashflow Statement and the Movement in Reserves Statement. These have been corrected by management

**22** There were also a number of casting errors and non-material amendments including textual changes to disclosure notes which were made by management as a result of my audit. Some of these non-material adjustments will have an impact on the reported financial position in the primary statements (Appendix 2 table 5).

**23** Details of agreed amendments following the re-issue of the draft financial statements in August 2011 are shown in Appendix 2.

**24** 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.

### Unadjusted errors

**25** Two non material errors were identified in the financial statements provided for audit which management have declined to amend. These relate to:

- a deferred liability for amortised rents no longer required, as subsequently established as a finance lease under IFRS
- incorrect reallocation of investment property income

**26** Details of the unadjusted errors to the statements are shown in Appendix 3. If these are to remain unadjusted, I am satisfied they would not have a material impact on the financial statements. Nevertheless I will require your confirmation on these errors in the letter of representation.

## Important weaknesses in internal control

**27** I have reviewed your Annual Governance Statement and have concluded that it accords with proper practice and is consistent with my knowledge of the Council.

**28** I only report to you weaknesses which are identified during the audit and are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

**29** There are three significant weaknesses in internal control that I wish to bring to your attention. These are in relation to your fixed asset register, journal authorisation, and arrangements for compilation of grant claims as explained below.

### Fixed asset register

**30** In my Annual Governance Report last year I identified problems with the reconciliation of your fixed asset register to the general ledger/ financial statements. These problems were largely due to the volume of adjustments made in year, limitations with the software which necessitated numerous manual adjustments and unclear delineation of responsibility between staff in finance and property services for maintenance of the fixed asset register. These problems have not been addressed.

**31** With the introduction of IFRS accounting in 2010/11, the number and complexity of adjustments increased significantly and your arrangements for updating the fixed asset register were unable to cope effectively with the increase in throughput and the complexity of entries.

### Journal authorisation

**32** Journals input to the general ledger are not routinely authorised throughout the year or at the year end. This constitutes a significant risk to the Council in so far as there is no management check over the authenticity and integrity of journal entries which could result in errors or even the fraudulent manipulation of data.

**33** I raised this issue with management following my interim audit and was assured that authorisation procedures would be introduced in respect of year end journals. These authorisation procedures were not introduced at the year end as agreed which meant that my team had to perform additional substantive testing in order to gain assurances over the general ledger.

**34** It should be noted that the testing carried out by my audit team was based on the materiality levels set for my audit and cannot be viewed as a substitute for proper authorisation controls. I therefore urge management to introduce journal authorisation controls as a routine part of the general ledger processing.

## **Grant claims**

**35** Funding from government grant-paying departments is a significant income stream for the Council. Management needs to manage claiming this income carefully and be able to demonstrate to auditors that it has met the conditions which attach to these grants.

**36** I identified weaknesses in your arrangements last year and recommended in my report to the Audit Committee that in future each claim must be supported by a comprehensive set of working papers produced at the compilation stage and be available to my audit team at the agreed commencement date of the audit.

**37** I can confirm from my work this year that no such arrangements have been introduced. To date one significant claim (NNDR) has missed the certification date because working papers were not provided on time. You may be at risk in relation to other claims because of the lack of management oversight of your grant claim compilation procedures.

## **Quality of your financial statements**

**38** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. I would like to draw your attention to the following matters.

### **Presentation of financial statements**

**39** The structure of the statements could be improved in future years to make them easier to follow. In particular the sequencing of notes and formatting of the accounts would benefit from review and revision, in the light of emergent best practice across the sector, in preparation for next years financial reporting round.

### **Quality of supporting working papers**

**40** The absence of a comprehensive set of working papers available at the commencement of the audit was a source of considerable difficulty to my audit team which I refer to later in my report.

**41** Management review of working papers prior to their submission to audit would ensure quality and consistency and would help reduce the number of audit queries and adjustments to the financial statements.

**42** In future the Strategic Director of Resources should ensure that quality assurance arrangements are timetabled into the accounts reporting process and these are applied prior to certification of the draft statements for audit.

### **Significant matters that were discussed or subject to correspondence with management**

**43** I have raised the following significant matters with management and I bring this to your attention in terms of open and transparent communication.

## **Non current schools assets**

**44** The matter applies to all Local Education Authorities and concerns non-current assets used by the different categories of maintained schools has been subject to debate for a number of years. The move to International Financial Reporting Standards (IFRS) has meant that the treatment of non-current schools' assets has been subject to further discussion and debate.

**45** The debate arises because the circumstances of each of the categories of maintained schools, such as ownership and access to economic benefits and service potential are different. The preliminary view set out by CIPFA on this issue indicates that non-current assets used by voluntary controlled, voluntary aided and foundation schools are not the assets of local authorities.

**46** This view accords with the current accounting policy applied by the Council and therefore no change has been proposed to the recognition of these assets in the balance sheet upon first time adoption of IFRS.

## **Upton Court Park**

**47** I have agreed with management the basis on which you have accounted for the deferred capital receipt arising from the disposal of part of Upton Court Park (Castleview development) for housing development purposes.

**48** In 2010, you entered into an agreement with the developer of Castleview development, Kelbridge Homes, to lease to the developer a strip of land, formally part of Upton Court Park on a substantial lease. The land provided the right of access from the development site to the main road. Negotiations were complex and protracted but eventually the contract of disposal was signed. The sale price was agreed at a minimum value £3.25m but with a number of caveats regarding the final price that the Council would receive and the timing of the receipt all linked to the phasing of the development at Castleview.

**49** I am satisfied that the minimum sale proceeds have been suitably recognised as a deferred capital receipt within the accounts (note 21) and a contingent asset has been disclosed relating to the overage clauses.

## **Significant difficulties encountered during the audit**

**50** The transition to IFRS reporting caused significant difficulties for a number of local government bodies. Nevertheless, the delayed completion of the IFRS restatement and the late receipt of auditable accounts on the 17 August 2011, had significant implications for the planning and conduct of my audit.

**51** I have summarised below the key factors that contributed to your closedown process difficulties this year and the impact on the audit:

- Management under-estimated the challenge and complexity of the IFRS restatement exercise. You therefore had to deal with issues from the IFRS restatement whilst simultaneously closing down your 2010/11 accounts.
- The problem was compounded by the unexpected absence of the Strategic Director of Resources and a lack of capacity and technical capability in some key areas of the finance team.
- Finance staff were placed under severe pressure during this extremely busy period and the quality assurances arrangements that I would expect to be in place as an integrated part of closedown were overlooked.
- Audit work had begun on the draft accounts before management rightly took its decision to withdraw these accounts. Many of these procedures had to be repeated when the revised accounts were received thereby adding to the audit workload of my team.
- The absence of a comprehensive set of working papers at the commencement of the audit resulted in a greater number of audit queries than in the previous year.

**52** In consequence I have performed significant additional work on the audit of the accounts this year and accordingly I will levy a supplementary audit fee. I also refer to the impact of the above matters on my VFM conclusion later in my report.

### **Letter of representation**

**53** 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 4 contains the draft letter of representation.

### **Recommendations**

**54** There are a number of improvement recommendations arising from my review of the financial statements. These recommendations are detailed below for your agreement and implementation by officers.

#### **Recommendation**

**R3** Review your fixed asset register and take steps to ensure that the fixed asset register and your arrangements for maintaining an up to date records of assets held by the Council is fit for purpose and operates effectively.

**R4** Introduce controls to routinely review and authorise journals input to the main accounting system to reduce the risk of incorrect or inappropriate journals being raised

## Recommendation

**R5** Support each major grant claim with a comprehensive set of working papers produced at the compilation stage and made available to auditors at the commencement of the audit.

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# Value for money

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

**55** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the two criteria specified by the Audit Commission. My conclusion and a summary of my key findings in each of the areas are set out below.

**56** Based upon this assessment I 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 the wording of my draft report.

Table 4: **Value for money criteria and our findings**

Criterion	Findings
<b>1. Financial resilience</b> The organisation has proper arrangements in place to secure financial resilience. <i>Focus for 2010/11:</i> The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>I am satisfied that you have adequate arrangements in place to secure financial resilience.</p> <p>You have a sound understanding of your financial risks going forward and you are taking appropriate steps to mitigate these and secure sustained financial balance over the medium term.</p> <p>You are aware of the significant and rapidly changing financial climate and display a sound understanding of the challenges and risks you face. There is routine challenge of your financial assumptions and your performance against your financial targets. Financial reporting is clear and transparent.</p> <p>Your financial plans and annual budget reflect your strategic objectives and priorities for the year and over the longer term.</p>

Criterion	Findings
	<p>You systematically monitor key financial ratios, benchmark the cost of your services against similar bodies and take action as appropriate.</p> <p>You are committed to achieving your financial targets and you have developed adequate arrangements for delivering your financial plans</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p><i>Focus for 2010/11:</i></p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>I am also satisfied that you have established adequate arrangements for challenging how you secure economy, efficiency and effectiveness.</p> <p>You take a rational view of your priorities and of the short, medium and longer-term opportunities for savings.</p> <p>You are actively challenging your approach to managing the organisation, considering whether services are best delivered in-house, outsourced or through shared service arrangements. As a consequence you are re-shaping your organisational structure.</p> <p>You use comparative information on costs and performance to evaluate options and plans for efficiency savings.</p> <p>Your value for money profile shows the costs and productivity of your key services are broadly in line with other organisations providing similar levels and standards of services, allowing for relevant local factors and priorities. You have provided my team with explanations for identified outliers and an indication of action proposed.</p> <p>You are engaging with your partners, other service providers and external sources of support to identify opportunities to improve your processes and achieve better outcomes.</p> <p>You are considering alternative and innovative approaches to delivering services. You have carried out a shared</p>

Criterion	Findings
	<p>services option appraisal which for example has led to the development of plans for the out-sourcing of transactional services.</p> <p>You continue to set yourself challenging targets both in relation to your Gold Projects and other corporate priorities.</p> <p>Achievement of your priorities is monitored and the risk and impact on the organisation's financial position of slippage against these targets is managed through your balanced score card and other performance reports.</p> <p>There are opportunities to make better use of the combined resources of partnerships and other external bodies and you beginning to address this.</p>

**57** Included in the work that I carried out to support my value for money conclusion was a review of :

- medium term financial planning;
- preparations for the outsourcing of transactional services;
- arrangements for managing capital projects with a focus on the Heart of Slough redevelopment; and
- the re-integration of housing services following the dissolution of People First.

**58** Overall, the reviews have reflected positively on your arrangements and I have identified a number of areas where you are doing well. My detailed findings in these areas have been discussed with the responsible officers.

**59** In terms of financial planning you have made good progress in bringing your costs into line with your declining resources and have a viable plan going forward. You have also campaigned to address the problem of historically inaccurate census data and you are confident that more representative census data will be available from 2011 onwards which will benefit the Council's overall finances.

**60** Your transactional services project is currently going through the concluding stages of your procurement process and I am satisfied that this has been managed effectively. I am pleased to report that the key learning points from previous abortive shared service venture in 2010 have been evaluated and beneficially transferred to the current project.

**61** I have concluded that you have robust arrangements in place to manage the Heart of Slough programme. Members have been closely involved in approving the business case for the programme and subsequent amendments. Costs and affordability of the scheme have been an overriding consideration throughout which is perfectly proper given the present economic climate and the need for the exercise of tight financial rigour.

**62** Overall, I am able to conclude that your arrangements for managing the integration of the ALMO People 1st (Slough) services during 2010 worked effectively and delivered a smooth transition and minimised your exposure to risk.

**63** I will be reported to you more fully on each of these areas in my Annual Audit letter.

## **Report by exception**

**64** The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

**65** The Council's arrangements for commissioning and buying quality services and supplies and for producing reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people are two such matters.

### **Commissioning and buying quality services and supplies**

**66** I have drawn on a number of sources of evidence in coming to my conclusion on the adequacy of your arrangements for the procurement of goods and services:

- the review of procurement arrangements carried out by your internal audit function;
- the internal review commissioned by management into contracting procedures; and
- my own enquiries including a review of the Berkshire Community Equipment Store contract.

**67** Furthermore your own Annual Governance Statement has recognised procurement as representing a significant governance failure and where improvements are now required.

**68** There have been significant failings in your procurement arrangements as they operated during the year which in my view places you at risk of criticism and challenge and make it difficult for you to demonstrate consistently that you have secured value for money in the procurement of goods and services. I have been made aware of:

- weaknesses in your procurement processes arising from inconsistencies and contradictions between your financial procedure

and procurement rules and the lack of clear and accessible procurement guidance being accessible to officers;

- weaknesses in contract documentation, including the maintenance of contract registers and a single audit trail;
- excess reliance on the use of "letters of intent" due to the delayed sign-off and exchange of contracts;
- widespread application of your business exemption procedures to award or extend the scope of contracts.

**69** Business exemption procedures represent waivers to the tendering requirements incorporated in your financial regulations and result in the award of contracts outside of the competitive process. They should be used only in exceptional circumstances otherwise the financial disciplines imposed by financial regulations may be lost with significant governance and probity risks. There is also an associated risk of non-compliance with EU procurement directives.

**70** I have issued a separate report on my review of the Berkshire Community Equipment Store contract. This relates to a contract administered by the Council under a pooled budget agreement for the provision of equipment to disabled and older people. In not tendering this service when it came up for renewal in 2009, the Council is in breach of the Public Contracts Regulations 2006.

**71** Having identified the problem with the Community Equipment Store, management is taking steps to regularise the contract and is due to put the contract out to competitive tender shortly.

**72** The Chief Executive has recognised the importance of these issues and in response has ordered a complete overhaul of the Council's procurement arrangements.

**73** Given the importance of effective procurement arrangements in ensuring that you secure value for money in the purchase of goods and services I make the following recommendation under Section 11 of the Audit Commission Act 1998 requiring a public response within 30 days of the date of my report.

## Section 11 Recommendation

R1 Overhaul your procurement arrangements to ensure that these reflect best procurement practice; ensure that your operational procedures are consistent with financial regulations and ensure that revised procurement practice is complied with and operates effectively in future.

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### Reliable and timely financial reporting

**74** I have referred earlier in this report to the Council's failure to produce properly prepared accounts by the 30 June 2011 as required by the Accounts and Audit Regulations 2011 and to the significant difficulties

encountered during my audit. These matters are of sufficient significance as to impact on my assessment of your financial management arrangements.

**75** In my view there were three contributing factors giving rise to the difficulties with the closedown process experienced by your finance team and which led to the delayed production of the annual accounts:

- complexities surrounding the first time adoption of IFRS;
- extended absence of the Strategic Director of Resources due to exceptional circumstances; and
- lack of resilience within the finance team.

**76** Whilst first time adoption of IFRS created difficulties for many council's nationally, those that had the necessary capacity and capability within their finance sections were more able to respond to problems at an early stage and to assign resources where required to deal with emerging difficulties.

**77** Equally, the unexpected absence of your statutory financial officer at such a critical time was unfortunate and had a detrimental impact on the closedown process, particularly the quality assurance aspects of your accounts production, but I would maintain that a resilient finance section would have had the capacity to put in place contingency measures.

**78** I have therefore concluded that the cause of the difficulties affecting your closedown of accounts and in turn my audit was the lack of the adequate resilience on the part of your finance function and its inability to respond to the challenging and exceptional circumstances of the year.

**79** The Strategic Director of Resources recognises the importance of these reporting duties and has accepted responsibility for ensuring that the Council has the capacity, capability and resilience to meet its statutory reporting obligations going forward.

**80** Given the importance of reliable and timely financial reporting I make the following recommendation under S 11 of the Audit Commission Act 1998 requiring a public response within 30 days of the date of my report.

## Section 11 Recommendation

R2 Ensure that the Council's finance function has the capacity, capability and necessary resilience to operate effectively with established quality assurance arrangements to meet the Council's statutory reporting obligations in the future.

## Other matters

**81** Two further matters have come to my attention which are relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I have decided not to report these in my independent auditor's report because they are of more limited consequence and

mitigating action has been taken by management. I am drawing them to your attention in the interest of openness and transparency.

**82** These relate to your corporate risk management arrangements and your partnership governance arrangements.

### **Corporate risk management**

**83** In my annual governance report last year I drew to your attention my concern that corporate risk management had lapsed and recommended a review of this function and the establishment of separate corporate arrangements under the guidance of a specialist risk manager.

**84** Management engaged Internal Audit to carry out an assessment of these arrangements against industry standards. The review found that the arrangements fell significantly short of these standards in a number of key areas. In response, management has introduced a programme of remedial measures designed to take effect in 2011/12.

**85** My comments relate specifically to your corporate arrangements as I am of the opinion that adequate arrangements have been maintained at individual service level and as regards high profile projects, such as your Gold Projects.

**86** Given these mitigating circumstances and management action, I have decided not to report this matter by exception within my independent auditors report but to ask that you ensure that the improvements identified by Internal Audit are implemented.

### **Partnership governance**

**87** In my annual governance report last year I recommended that the Council take steps to address failures in the way the partnership governance framework is operated which may compromise the delivery of partnership outcomes.

**88** In response management commissioned an Internal Audit review which confirmed serious gaps in your arrangements during the year and made recommendations for improvement. Management's response was immediate. A revised partnership governance framework (and toolkit) was introduced and its phased implementation was agreed by Cabinet in June 2011. A programme of partnership reviews has been commenced.

**89** How you manage your partnerships is only part of your overall governance arrangements but in the current climate it is an important one. Fresh challenges and opportunities will come as the shape of public sector service delivery changes, bringing you for example closer to the NHS when public health responsibilities are divested to local government. It is therefore important that your partnership governance arrangements are fit for purpose and operate effectively for each key work stream.

**90** Although these weaknesses continued through 2010/11, I am satisfied that management action is appropriate and therefore I have decided not to report this matter by exception within my independent auditors report but to ask that you ensure that the anticipated improvements are delivered.

### **VFM recommendations**

**91** There are a number of improvement recommendations arising from my review of your arrangements to secure value for money in the use of resources. I have confined my recommendations in this section to those arising from my reporting by exception. I have made recommendations on other matters within my detailed reports to management. I will also raise the more significant recommendations in my Annual Audit Letter.

#### **Recommendation**

**R6** Track the implementation and delivery of planned changes to your risk management and partnership governance arrangements and ensure that your timetable for securing improvements is met and planned outcomes are achieved.

---



## Public rights of challenge

**92** During my audit I received questions and requests for audit action from a number of electors and interested persons.

**93** One of these matters relating to the Special Education Needs appeal process remains under deliberation and I will need to keep my audit open until my audit enquiries are complete. “However I am satisfied that this matter does not have a material effect on the financial statements or a significant impact on my value for money conclusion. “

**94** Accordingly I will proceed to report my opinion on the accounts and value for money conclusion but I will not issue my completion certificate at this stage. A draft of my report is attached at Appendix 1.

## 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.**

**95** I ask the Council to:

- consider the matters raised in my draft report before approving the financial statements;
- take note of the current adjustments to the financial statements which are set out in this report (appendix 2);
- agree to adjust the current errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3);
- approve the final letter of representation before I issue my opinion and conclusion (appendix 4);
- respond to the two section 11 recommendations (pages 21 and 22);
- request officers to respond to the other recommendations made in my report.

**96** I will be pleased to present this draft governance report and discuss any matters arising at your Council meeting on 19 October 2011 after which I will proceed to conclude my audit.

Phil Sharman  
*District Auditor*

12 October 2011

# Appendix 1 Independent auditors report

## Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Slough Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director of Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware

of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Slough Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion the Governance Statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Slough Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

### **Report by exception**

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Accordingly I am obliged to report by exception the significant weaknesses in Slough Borough Council's arrangements for:

- commissioning and buying quality services and supplies, and
- for producing reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people.

## Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements or a significant impact on my value for money conclusion.

Phil Sharman  
*District Auditor*  
Officer of the Audit Commission

Audit Commission  
Unit 5 Isis Business Centre  
Horspath Road  
Cowley  
Oxford OX4 2RD

[date]

## Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 5: **Agreed amendments to the primary statements**

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Comprehensive Income and Expenditure statement:					
Central Services to the Public	Misclassification of write back of accumulated depreciation	24			
Cultural, Environmental, Regulatory and Planning Services	Misclassification of write back of accumulated depreciation	197			
Education and Children's Services	Misclassification of write back of accumulated depreciation	197			
Highways and Transport Services	Misclassification of write back of accumulated depreciation	71			
Local Authority Housing (HRA)	Misclassification of write back of accumulated depreciation		788		
Other Housing Services	Misclassification of write back of accumulated depreciation	63			
Adult Social Care	Misclassification of write back of accumulated depreciation	236			

		Comprehensive income and expenditure statement	Balance sheet
Income in relation to investment properties	Investment property income incorrectly credited to cost of services	2701	
Cost of services	Investment property income incorrectly credited to cost of services	2701	
2009-10 Income in relation to investment properties	Investment property income incorrectly credited to cost of services	998	
2009-10 Cost of services	Investment property income incorrectly credited to cost of services	998	
Property, Plant and Equipment: Other land and Buildings	Wexham Road Nursery incorrectly classified as current asset held for sale		3,750
Current Assets: Assets Held for Sale	Wexham Road Nursery incorrectly classified as current asset held for sale		3,750
Long Term Debtors	Reclassification of deferred sale proceeds for sale of Upton Court Park (Castleview development)		2,511
Short Term Debtors	Reclassification of deferred sale proceeds for sale of Upton Court Park (Castleview development))		2,511
Provisions	Redundancy creditor incorrectly classified as provision		737
Short Term Creditors	Redundancy creditor incorrectly classified as provision		737



		Comprehensive income and expenditure statement		Balance sheet	
Cashflow Statement: Adjustment to surplus/deficit on the provision of services for non cash movements	Balance disclosed as £359,006k instead of £343,946k	n/a	n/a	n/a	
Cashflow Statement: Adjustment for items included in net surplus/deficit that are investing/financing activities	Balance disclosed as £285,765k instead of £274,430k	n/a	n/a	n/a	
Cashflow Statement: Net cash flows from investing activities	Balance disclosed as £24,910k instead of £10,323k	n/a	n/a	n/a	n/a
Cashflow Statement: Net cash flows from financing activities	Balance disclosed as £26,949k instead of £8,637k	n/a	n/a	n/a	n/a
2009-10 Cashflow Statement: Adjustment to surplus/deficit on the provision of services for non cash movements	Balance disclosed as £394,652k instead of £401,001k	n/a	n/a	n/a	n/a
2009-10 Cashflow Statement: Net cash flows from investing activities	Balance disclosed as £15,180k instead of £6,887k	n/a	n/a	n/a	n/a
2009-10 Cashflow Statement: Net cash flows from financing activities	Balance disclosed as £13,646k instead of £11,702k	n/a	n/a	n/a	n/a
2010/11 Group Accounts: Comprehensive I&E					

		Comprehensive income and expenditure statement		Balance sheet	
Account					
Local Council Housing 2010/11 Expenditure	Balance disclosed as £32,776k should be £33,564k	788			
Local Council Housing Income	Balance disclosed as £(30,700)k should be £(29,944)k	756			
2010/11 Group Accounts: General	The Group accounts should also reflect all other adjustments identified relating to the single entity				
2009/10 Group Accounts: Comprehensive I&E Account					
Local Council Housing Income	Balance disclosed as £(30,246)k should be £(29,472)k	774			
2009/10 Group Accounts: General	The Group accounts should also reflect all other adjustments identified relating to the single entity				
2010/11 Housing Revenue Account	Various classification adjustments	n/a	n/a	n/a	n/a

Table 6: **Agreed amendments to the disclosure notes**

Note	Adjusted misstatement	Nature of adjustment	£000s
Note 5: The IFRS restatement disclosure:	(i) Council as lessee - Vehicles, plant & equipment at 31 March 2010	Disclosed as £14,191k Should be £11,607k	(2,584)
	(ii) Council as lessor -1 April	Disclosed as	1,117

	2009 Other land & buildings IFRS adjustment	£1,063k Should be £2,180k	
	(iii) Council as lessor -31 March 2010 Other land & buildings IFRS adjustment	Disclosed as £1,463k Should be £654k	809
Note 11: Capital Commitments		Committed figures incorrectly disclosed:	
	Heart of Slough	Disclosed as £2,400k Should be £10,300k	7,900
	Heart of Slough Bus Station	Disclosed as £24,700k Should be £2,700k	(22,000)
	Western House expansion	Disclosed as £2,900k Should be £2,100k	(800)
	Westgate School expansion	Disclosed as £2,200k Should be £2,000k	(200)
	Parlaunt Park Primary refurbishment	Disclosed as £4,000k Should be £2,600k	(1,400)
	Wexham Court Primary expansion	Disclosed as £4,000k Should be £2,400k	(1,600)
Note 21: Unusable Reserves	2010/11 Revaluation reserve	Disclosed as £27,275k Should be £44,804k to correspond to the Balance Sheet	(17,529)
Note 28: Pooled Budgets - Berkshire Community Equipment Service:	Gross funding: Other Unitary Authorities	Incorrect split of funding within Berks Community Equipment Service between unitaries and PCTs	(1241)

		Disclosed as £2,575k Should be £1,334k	
	Gross funding: Other Unitary Authorities	Incorrect split of funding within Berks Community Equipment Service between unitaries and PCTs Disclosed as £0 Should be £1,241k	1241
Note 33 Grant income	Total capital grants credited to CIES	Disclosed as £24,171k Should be £32,533k to correspond to the CIES	(8,362)
Note 36 Leases 2010-11: Council as a Lessee - Finance Leases	Table 1: Vehicles, plant, furniture and equipment	Disclosed as £4,434k should be £3,995k	(439)
	Table 2: Finance lease liabilities Current	Disclosed as £1,784k should be £1,891k	107
	Table 2: Finance lease liabilities Non current	Disclosed as £14,038k should be £13,931k	(107)
	Table 2: Finance lease liabilities Finance costs payable in future years	Disclosed as £1,567k should be £1,940k	373
	Table 3: Minimum Lease payments Not later than one year	Disclosed as £0k should be £2,449k	2,449
	Table 3: Minimum Lease payments Later than one year and not later than five years	Disclosed as £45k should be £10,301k	10,256
	Table 3: Minimum Lease payments Later than five years	Disclosed as £2,196k should be £5,012k	2,816
	Table 3: Finance Lease Liabilities	Disclosed as £0k should be £1,891k	1,891

	Not later than one year		
	Table 3: Finance Lease Liabilities Later than one year and not later than five years	Disclosed as £59k should be £9,028k	8,969
	Table 3: Finance Lease Liabilities Later than five years	Disclosed as £14,825k should be £4,903k	(9,922)
Note 36 Leases 2009-10: Council as a Lessee - Finance Leases	Table 1: Vehicles, plant, furniture and equipment	Disclosed as £5,503k should be £5,053k	(450)
	Table 2: Finance lease liabilities Current	Disclosed as £4,210k should be £1,711k	(2,499)
	Table 2: Finance lease liabilities Non current	Disclosed as £13,323K should be £15,822k	2,299
	Table 3: Minimum Lease payments Not later than one year	Disclosed as £0k should be £2,241k	2,241
	Table 3: Minimum Lease payments Later than one year and not later than five years	Disclosed as £45k should be £11,795k	11,750
	Table 3: Minimum Lease payments Later than five years	Disclosed as £2,156k should be £5,967k	3,811
	Table 3: Finance Lease Liabilities Not later than one year	Disclosed as £0k should be £1,711k	1,711
	Table 3: Finance Lease Liabilities Later than one year and not later than five years	Disclosed as £78k should be £10,014k	9,936
	Table 3: Finance Lease Liabilities Later than five years	Disclosed as £16,309k should be £5,808k	(10,501)
Note 36 Leases	Table 4	Disclosed as £1,754K should be	(838)

2010-11: Council as a Lessee - Operating Leases	Not later than one year	£916K	
	Later than one year and not later than five years	Disclosed as £5,156k should be £2,900K	(2,256)
	Later than five years	Disclosed as £2,634K should be £2,467k	(167)
Note 39: Termination Benefits		Termination benefits require adjustment to show total liability of £3.8m and remaining number of officers involved as 117.	737
Note 48: Amounts Reported For amounts reported for Resource Allocation Decisions	Reconciliation to Subjective Analysis 2010/11		
	Service Analysis - Fees, charges & other service income	Disclosed as (£39,863k) Should be (£37,421k)	2,442
	Service Analysis - Interest & Investment Income	Disclosed as £0 Should be (£2,442k)	(2,442)
	Service Analysis - Income from Council Tax	Disclosed as £0 Should be (£47,470k)	(47,470)
	Service Analysis - Government grants	Disclosed as (£245,386k) Should be (£197,916k)	47,470
	Service Analysis - Other operating expenses	Disclosed as £220,571k Should be £205,709k	(14,862)

	Service Analysis - Interest payments	Disclosed as £0 Should be £8,015k	8,015
	Service Analysis - Pensions and Tax	Disclosed as £0 Should be £6,583k	6,583
	Service Analysis - Precepts and Levies	Disclosed as £0 Should be £264k	264
	HRA - Other operating expenses	Disclosed as £13,440k Should be £14,742k	1,302
	HRA - Payments to Housing Capital Receipts Pool	Disclosed as £0 Should be £1,300k	1,300
	HRA - Gain or Loss on disposal of Fixed Assets	Disclosed as £0 Should be (£2,602k)	(2,602)
Note 48: Amounts Reported For amounts reported for Resource Allocation Decisions	Reconciliation to Subjective Analysis 2009/10		
	Service Analysis - Fees, charges & other service income	Disclosed as (£40,782k) Should be (£37,274k)	3,508
	Service Analysis - Interest & Investment Income	Disclosed as £0 Should be (£3,508k)	(3,508)
	Service Analysis - Income from Council Tax	Disclosed as £0 Should be (£46,294k)	(46,294)
	Service Analysis - Government grants	Disclosed as (£208,533k) Should be (£162,239k)	46,294
	Service Analysis - Other operating expenses	Disclosed as £200,045k Should be £186,672k	(13,373)
	Service Analysis - Interest payments	Disclosed as £0 Should be £6,989k	6,989

	Service Analysis - Pensions and Tax	Disclosed as £0 Should be £6,150k	6,150
	Service Analysis - Precepts and Levies	Disclosed as £0 Should be £234k	234
	HRA - Other operating expenses	Disclosed as £12,853k Should be £11,982k	871
	HRA - Payments to Housing Capital Receipts Pool	Disclosed as £0 Should be £1,000k	1,000
	HRA - Gain or Loss on disposal of Fixed Assets	Disclosed as £0 Should be (£129k)	(129)
Group Accounts: Note 5: Transactions relating to post - employment benefits	Comprehensive I & E statement 10/11: Actuarial gain	Disclosed as (£48,850k) Should be (£47,912k)	938
	Comprehensive I & E statement 10/11: Employers contributions to scheme	Disclosed as (£8,074k) should be (£8,380k)	(306)
	Scheme history table - Year to March 2007: Present value of liabilities	Disclosed as (£237,891k) should be (£241,586k)	(3,695)
	Scheme history table - Year to March 2007: Fair Value of assets in LGS	Disclosed as £190,778k should be £194,311k	3,533
	Scheme history table - Year to March 2007: Surplus/deficit in scheme	Disclosed as £47,113k should be £47,275k	162

In addition to the adjustments detailed in Tables 5 and 6 above, there were a number of rounding, internal consistency, casting and disclosure errors in the draft financial statements that have now been corrected.

These are explained more fully in the section of my report where I consider the quality of your financial statements. I am satisfied that these errors were made in the process of producing the financial statements and are not caused by underlying accounting errors.



## Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 7: **Unadjusted errors in the financial statements**

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Deferred liabilities	Brought forward deferred liability for amortised rents no longer required, as subsequently established as a finance lease under IFRS.			780	
General fund	Brought forward deferred liability for amortised rents no longer required, as subsequently established as a finance lease under IFRS.				780
CIES / Note 12 Investment properties income	Correct figure for investment property income was £3,399k in the CIES and £2,066k in note 12	333		n/a	n/a
Cost of services			333	n/a	n/a

# Appendix 4 Draft letter of representation

## Draft management representation letter

Phil Sharman  
District Auditor

Audit Commission  
Unit 5 Isis Business Centre,  
Horspath Road, Cowley,  
Oxford OX4 2RD

19 October 2011

## Slough Borough Council - Audit for the year ended 31st March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, 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 31st March 2011.

All representations cover the Council's Accounts and Group Accounts included within the financial statements.

### Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### Uncorrected misstatements

The effect of uncorrected misstatement in the financial statements is not material to the financial statements, either individually or in aggregate.

### Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

### Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. 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;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

**Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

**Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

**Related party transactions**

I confirm that I have disclosed the identity of Slough Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

**Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

**Specific representations**

[detail any specific representations to be made]

**Signed on behalf of Slough Borough Council**

I confirm that the contents of this letter were discussed and agreed by the Council on 29th September.

Signed

Name

Position

Date

## Appendix 5 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 financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

### **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

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

‘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.

### **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

### **Value for money conclusion**

The auditor’s conclusion on whether the audited body has put in place proper adequate arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. The two specified criteria for Councils are:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

The Code of Audit Practice also defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

I am required to report by exception if I find that the body did not have these proper arrangements in place.

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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- any third party.



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